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Vol. XXX, No. 2 February, 1928

CREDIT MONTHLY

(Reg. U. S. Pat. Off.)

A Collection Letter, Written in 1792, by the President of the United States

See page 8

25 cents $3 a Year


FIRE!
When it's burning — then you know whether you have carried sufficient insurance. In a flash you can visualize the loss this fire is going to entail. Then it is that the wisdom of watching inventories and keeping insurance up to values is apparent. Then it is that you realize Use and Occupancy or Profits Insurance are as necessary to carry as insurance on the physical property itself.
See an "America Fore" agent. He will be glad to check up with you and tell you whether or not your insurance protection is complete.
AMERICAN EAGLE FIDELITY-PHENIX
The CONTINENTAL FIRST AMERICAN
FIRE INSURANCE COMPANIES
Eighty Maiden Lane, New York, N.Y.
Ernest Sturm, Chairman of the Boards
Paul L. Haid, President
NEW YORK
CHICAGO
MONTREAL
SAN FRANCISCO
THE "AMERICA FORE" GROUP OF FIRE INSURANCE COMPANIES

New Trade Group

By Elliot Balestier, Jr.

THE Trade Group Department of the Eastern Division of the National Association of Credit Men announces the formation of an association of sausage casing dealers under the title of the National Sausage Casing Dealers Association, which is affiliated with the National Association of Credit Men for credit purposes.

The purposes of the new Association are best described by the following extract from its code of ethics:

"To apply intelligently the fundamental principles of good credit and to exercise prudence, care and equity in the handling of credits and the administration of the affairs of embarrassed or insolvent debtors.

"To furnish promptly and freely credit information to other members selling the same accounts, so that all the members may be properly guided in passing on applications for credit accommodations.

"To assist worthy debtors who become financially involved or embarrassed, but to prosecute to the fullest extent those guilty of practicing fraud in obtaining merchandise on credit.

"To endeavor, through co-operation, to eliminate trade abuses and unethical practices in the industry and in no instance to seek to take undue advantage of a fellow member or customer.

"To form contacts with the proper departments and officials of the Federal Government for the purpose of intelligent co-operation on all regulations affecting the industry."

A partial list of members follows:

- American Casing Company.
- Bechstein & Company.
- M. Brand & Sons, Inc.
- M. Ettlinger & Company.
- Berth, Levi & Co.
- S. Oppenheimer & Company.
- Sayer & Company.
- Schweisheimer & Fellerman Co.
- P. Wohl, Inc.
- Early & Moor, Inc.
- Massachusetts Importing Co.
- C. H. Spike, Inc.
- Weil Casing Company.
- Independent Casing & Supply Company.
- Harry Levi & Company.
- Brecht Casing Corporation.
- Oppenheimer Casing Company.

CREDIT MONTHLY

THE NATIONAL MAGAZINE OF BUSINESS FUNDAMENTALS

(Member, Audit Bureau of Circulations)

Editorial and Executive Offices, One Park Avenue, New York

RODMAN GILDER, Editor

CONTENTS FOR FEBRUARY, 1928

CREDIT MONTHLY Feb., 1928 — Published on the 5th of every month by the National Association of Credit Men. Subscription price $3.00 a year, 25 cents a copy. Canada, $3.50. All other countries, $4.00 postpaid. Entered as second-class matter April 5, 1927 at the Post Office at New York, N. Y., U. S. A., under the Act of March 3, 1879.
Editorial and Executive Offices, 1 Park Avenue, New York, N. Y., U. S. A. — Vol. XXX No. 2

Credit Monthly to Add Valuable Feature Next Month

IN order that the service rendered to a portion of the members of the National Association of Credit Men by the "Vigilantia Bulletin and Washington News" may be available for the entire N. A. C. M. membership, the information in that publication will, beginning with March, be printed regularly in the CREDIT MONTHLY. In this way readers of the magazine will receive authoritative news of legislation, judicial decisions, various governmental activities, etc. This feature will greatly enhance the magazine's value it is hoped for the credit fraternity.

The Letter

"I HAVE been pretty frank with this customer you told me to write to over your signature," said the Assistant to the President. "It gives me a pain to see someone trying to get away with murder like this. Does he think we are a bunch of philanthropists, or what? I guess he will change his mind when he has got to the end of that letter."

The President picked up the paper and read it carefully.

"There is one good thing about it: it is perfectly clear. Moreover, it will not bore the man who gets it."

"Are those the only good points you find in it?" asked the younger man.

"No, it is correctly spelled," said the President, smiling. "Look here, Ed," he continued, "I saw you handle that wildcat of a customer we had in here last week, pacify him, and get a re-order from him. Your ability to swing such things and your good manners, especially in an emergency, are the chief reasons why you are employed in this outfit. And yet, when you sit down (or jump up) to dictate a letter where we are entirely in the right and the other fellow is unreasonable, you make an impression as if your manners were learned by shovelling codfish on the riverfront."

"Go on, J. B.," said his assistant. "I have the impression, though painful, that I am learning something."

"I hope so," said the President cheerfully. "There are some men who in personal contact are invariably pleasant but whose good manners disappear when they get on the telephone. That does not apply to you. I have seen you keep your temper under great provocation while you were on the telephone, but you have not yet mastered the letter proposition as is shown by this letter which you seem to be more or less proud of."

"Whatever pride I may have had in it has evaporated," admitted the assistant.

"Moreover," continued the President, "there is nothing in this letter to show that you have visualized the reader—one of the main points in letter-writing. You might just as well have been writing to someone about whom you knew nothing at all. As a matter of fact, you know a great deal about this customer, even if you haven't actually seen him. Oh, you have seen him? Good! When you re-write the letter, have a picture of him in your mind, figure out what his reactions are to what you are saying. And, above all, keep in your letter-writing the good manners that you have when you are talking on the telephone or face to face."

Rodman Gilder

Editor.

CREDIT MONTHLY

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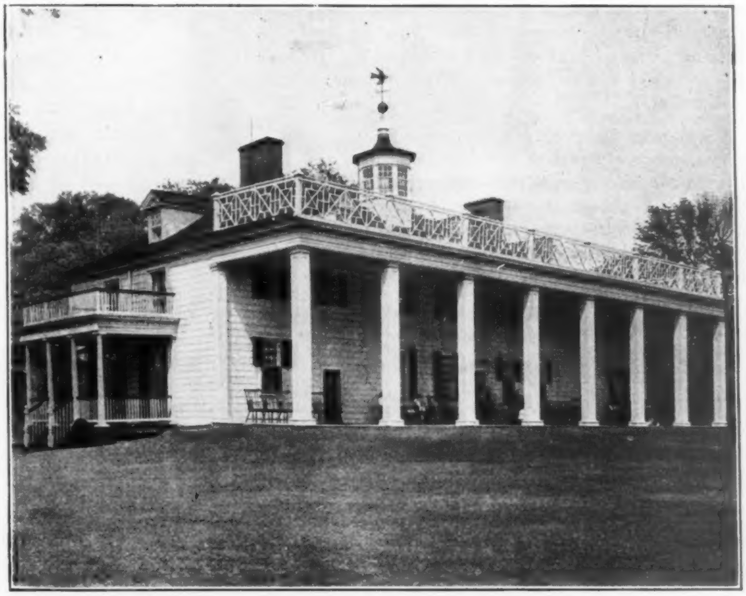
Geo. Washington and Credit

First President Thoroughly Familiar With Subject

By Varius Sands



Mount Vernon, Washington's Home on the Potomac

THAT George Washington was an experienced and (ultimately) successful business man is, even today, less well known than the fact that he was a great general and statesman.

Like every good business man he had a keen sense of financial obligation. He was thoroughly familiar with many phases of credit, both as a creditor and as a debtor.

According to the historian P. L. Ford, Washington in 1763 wrote to a friend to say that the stocking and repairing of his plantations and other matters " 'swallowed up before I well knew where I was, all the moneys I got by marriage, nay more, brought me in debt.' In 1775, replying to a request for a loan, he declared that 'so far I am from having 200 pds. to lend . . . I would gladly borrow that sum myself for a few months.' When offered land adjoining Mount Vernon for three thousand pounds in 1778, he could only reply that it was 'a sum I have little chance, if I had inclination, to pay, and therefore would not engage it, as I am resolved not to incumber myself with Debt.'

"In 1782, to secure a much-desired tract he was forced to borrow two thousand pounds at the rate of seven per cent.

"In 1788, 'the total loss of my crop last year by the drought' 'with necessary demand for cash' 'have caused me much perplexity and given me more uneasiness than I ever experienced before from want of money.' And a year later, just before setting out to be inaugurated President, he tried to borrow 500 pounds 'to discharge what I owe' and to pay the expenses of the journey to New York, but was 'unable to obtain more than one half of it (though it was not much I required), and this at an advanced interest with other rigid conditions,' though at this time 'could I get in one fourth part of what is due me in bonds' 'without the intervention of suits' 'there would have been ample funds.'

Depreciated Paper

"In 1795 the President said 'my friends entertain a very erroneous idea of my particular resources, when they set me down for a money lender, or one who (now) has a command of it. You may believe me when I assert that the bonds which were due to me before the Revolution, were discharged during the progress of it with a few exceptions in depreciated paper (in some instances as low as a shilling in the pound.) That such has been the management of the Estate, for many years past, especially since my absence from home, now six years, as scarcely to support itself. That my public allowance (whatever the world may think of it) is inadequate to the expense of living in this City, to such an extravagant height have the neces-

A Collection Letter by George Washington President of the United States

Philadelphia, June 30th, 1792.

Sir,

I little expected that I should have had occasion, at this time (after the pointed assurances you gave me more than three years ago, of discharging what was due to me, fully) to remind you that I have received only Three hundred and eighty pds. of the balance; and to ask what I am to expect from you in the future.—

I delayed from day to day while you were in this City (until it was too late) to apply to you on this subject, in hope, of an expectation that you would not have left town without mentioning it yourself.

Before I apply to the Executors of Colonels Taylor & Thornton who were securities for the money loaned to your deceased father, John Mercer Esqr. I will await the receipt of your answer to the letter which I hope will be given as soon as you can make it convenient.—

It has been of little avail hitherto, to inform you of the causes of my want of this money, although in more instances than one, I have done it with the utmost truth and candour; nor should I say anything further to you on this head now, were I not in a manner compelled to declare that from an occurrence which did not exist before have a call upon me, for a considerable sum, in a few months; against which it is indispensably necessary that I should be provided.—

I am—Sir

Your Most Obedt. Servant

G. Washington.

To John Francis Mercer.

From Letters and Recollections of George Washington. New York, 1906.

saries as well as the conveniences of life arisen. And moreover that to keep myself out of debt, I have found it expedient now and then to sell Lands or something else to effect this purpose.' "

Nevertheless Washington, as Ford points out, was a successful business man. "Though his property rarely produced a net income, and though he served the public with practically no profit, except as regards bounty lands, and thus was compelled frequently to dip into his capital to pay current expenses, yet, from being a surveyor only too glad to earn a doubloon ($7.40) a day, he grew steadily in wealth, and when he died, his property, exclusive of his wife's and the Mount Vernon estate, was valued at $530,000.

This made him one of the wealthiest Americans of his time, and it is to be questioned if a fortune was ever more honestly acquired or more thoroughly deserved.

Magnanimous to Debtor

Washington is shown in the role of a magnanimous creditor in the incident described in 1852 by the historian Hervey in the matter of 1000 pounds owed Washington by one Reuben Rouzy of Virginia. While President, one of Washington's agents brought action for the money. "Judgment was obtained, and execution issued against the body of the defendant, who was taken to jail. He had a considerable landed estate, but this kind of property cannot be sold in Virginia for debts, unless at the discretion of the person. He had a large family, and for the sake of his children preferred lying in jail to selling his land.

"A friend hinted to him that probably George Washington did not know anything of the proceeding, and that it might be well to send him a petition, with a statement of the circumstances. He did so, and the very next post from Philadelphia, after the arrival of his petition in that city, brought him an order for immediate release, together with a full discharge, and a severe reprimand to the agent for having acted in such manner. Poor Rouzy was, in consequence, restored to his family, who never laid down their heads at night, without praying to Heaven for their 'beloved Washington.'

"Providence smiled upon the labors of the grateful family, and in a few years Rouzy enjoyed the exquisite pleasure of being able to lay the 1000 pounds, with the interest, at the feet of this truly great man.

"Washington reminded him that the debt was discharged; Rouzy replied, the debt of his family to the father of their Country, and preserver of their parent, could never be discharged; and the General, to avoid the pressing importunity of the grateful Virginian, who would not be denied, accepted the money only, however, to divide it among Rouzy's children, which he immediately did."

Our Trade With Cuba

THE Foreign Trade Executive Committee of the National Association of Credit Men strongly favors the passage of the Cuban Parcel Post Bill H.R. 9195 introduced in Congress last month by Congressman Watson of Pennsylvania. It says:

"We strongly advocate that this matter be given preferential attention at the coming session of Congress in order that the Cuban Government may not be forced to carry out its definitely expressed intention of abrogating the general mail convention if revision of the present restrictive laws is not made before March 1. . . .

"The business with Cuban customers of hundreds of American manufacturers and distributors should not be adversely affected by restrictions in our mail relations with Cuba. Friendship and good will have a decided bearing on proper credit transactions, and therefore immediate and definite action must be taken to avoid placing any obstacle in the way of maintaining the present and future position of American business in the Cuban market."

Credits in the Hat Business

One Credit Policy Prevails With 13,000 Accounts

By W. Dayton Shelly

Treasurer, John B. Stetson Company, Philadelphia

THE CREDIT MONTHLY has often commended the dictum of "character as the basis of credit" and the National Association of Credit Men has favored the trend in credit work known as Business Service. These two phrases sum up, briefly, the entire credit policy of the John B. Stetson Company of Philadelphia. They are, to our minds, the fundamental principles of all credit work.

They are the foundations of our credit policy and apply to both our foreign and domestic business. Many manufacturers are of the opinion that foreign business necessitates an entirely different attitude towards the granting of credit than that which is manifested towards domestic trade. In extreme instances this takes the form of an unwarranted suspicion of all foreign applicants for credit. We believe that, while customs and languages differ, the fundamentals of business honesty as regards the meeting of obligations are the same the world over. For us, at least, this has proved to be true.

The system we employ is extremely simple and might be said to begin before the order is received at our factory. For the Credit and Sales Departments of John B. Stetson Company function in close co-ordination. Every Stetson salesman is educated along credit lines. The various factors influencing the extension of credit are explained to them. The importance of credit in relation to sales is made clear.

Salesmen Consulted

Our salesmen are taught merchandising methods and many act as advisors for their customers in such matters as arrangement of stocks, display, featuring of specials and a hundred and one other matters which make the difference between quick turnover and prompt payment and overstocking and lagging remittances.

We consider that this work is of vital importance to our business and especially to our Credit Department. For, although a salesman has no au-

W. DAYTON SHELLY,

Treasurer of the John B. Stetson Company, looks after the receivables of a concern with annual sales of some 15 million dollars. He is President of the Philadelphia Association of Credit Men and has long been identified with Credit Association activities, both local and National.

thority to make decisions, he is a combined field credit man and a factory representative in a very real sense.

Our salesmen are frequently consulted and their opinions are held to be very valuable as to the type of store, whether clean or dirty, the owner's ranking in his community, the value of his word and many other details which can be observed only by some one who is in a position to see for himself.

Our system, or routine, is one of extreme simplicity. Ratings are placed on every order received as ratings are based on a concern's financial worth. One of our basic principles is that credit is rarely extended without a full knowledge of a customer's assets and liabilities.

We use the commercial agencies as sources of information. If the rating is first class in every respect and if no adverse facts develop from other sources, the order is put through. If the ratings are good but we have an uncollected, past due item on our books, our actual ledger experiences are noted on the order and it is referred to an official for decision.

In cases where a rating is not strong enough to justify the credit, we refer to our ledger experiences. If these are satisfactory the order is put through. Should our ledger experiences seem unsatisfactory we secure our complete report file and review its contents. If this does not seem sufficiently up to date to us, we secure new reports, using one or more of the agencies organized for profit, and the Credit Interchange Bureau of the N. A. C. M., which bureau is increasingly valuable to us because it is constantly improving its services and broadening its scope.

If we cannot get a satisfactory statement through any of these agencies we write directly to the customer and send our financial statement form. In writing for a financial statement we always notify the customer that we will consider such information as may be furnished us strictly confidential. We make a practise of never giving out information so received unless authorized to do so by the customer.

Credit Interchange

While I am on the subject of reports, I might mention that we find the Credit Interchange Bureaus one of our most valuable sources of collateral information. We particularly like this service because we are furnished with the facts from which we can draw our own deductions.

The same procedure is followed with all foreign orders, although our sources of information are slightly different. We have always been able to obtain adequate facts about our foreign customers and have experienced none of the credit difficulties which export business is sometimes supposed to create.

We insist upon compliance with our terms which are 2 per cent. 10 days 30 days net. Our bills are subject to interest at 6 per cent. per an-

Part of Credit Department, John B. Stetson Company, Philadelphia. The inner office, beyond the glass partition, is that of Mr. Shelly. The above view was taken from in front of the credit files.

num after due date and are subject to draft if not paid in 60 days.

Should our bills not be paid at due date we send a form letter calling attention to the fact that the bill is overdue. If no reply is received we issue a draft. Should this not be honored, we write or wire for an explanation and, still failing to secure results, we notify the debtor that further action will be taken through a collection agency. For this purpose we make use largely of the collection bureaus of various Credit Men's Associations, many of which are highly efficient.

While this describes our formal method of procedure, we have, in reality, very little occasion to resort to collection agencies. We have found that there are many causes for overdue items, many of which can be adjusted, and sometimes eliminated, by frankness on both sides. Therefore most of our overdue items are treated as the individual case seems to warrant.

Our credit department places *all information on the original order*. Furthermore, we believe that this system reduces our chances of error because, instead of transcribing from a card which was copied from a report, we take our information directly from the original source. Another feature which appeals to us is the fact that, in this way, we have a permanent record in connection with each order, right on the order itself. Thus if, at any time, we wish to know on what basis credit was granted on a specific order, we have but to refer to the order itself to get all of the facts.

The Credit Department acts, at all times, as if it were handling its own money and strives to conduct its affairs so that it could appear, without notice, before any tribunal of inquiry, and justify the extension of any credit granted, satisfied that every penny is adequately safeguarded.

Importance of Credit

Our company considers credit work of the utmost importance. Our president takes a keen and active interest in the company's credit policies.

We do not regard credit work simply from the angle of accounts receivable but as one of the great forces through which good will can be created. For bad will can be created by unwise credit granting, just as good will can be bulwarked by a liberal but sound policy.

One other rule to which we adhere is that we never grant credit simply to promote sales. For we have no desire to create, by an unwise credit policy, unfair competition for legitimate merchants.

Although a manufacturer may appear to profit personally by carelessly granting credit, he suffers, indirectly at least, through assisting in the creation of unsound economic conditions which, in times of depression, may seriously hamper his business. For instance, a manufacturer whose net is 15 per cent. may argue that, if he gets $100,000 additional business at a loss of 4 per cent. from bad debts, he is still ahead $11,000.

In reality, by assisting in the establishment of unsound business enterprises, he is helping contribute to an economic waste which is felt by the entire business community.

It is an unfortunate fact that there are still some concerns who regard credit work as something akin to book-keeping and who entrust the work of credit management to an underpaid individual with limited judgment.

A successful modern credit executive must be a man of broad vision and sound judgment with a thorough understanding of the business structure as a whole. The determination of whether or not credit should be granted is the result of an analysis of facts, favorable and unfavorable, some of which, though apparently insignificant, turn the scale by a hair's breadth for or against. Upon the credit manager rests a large share of the responsibility for the soundness of a business enterprise. A wise credit policy increases business, whereas a careless one brings loss.

The credit policy of our company presents a rather odd anachronism. For, on the one hand, we are intensely conservative while, on the other, we are very liberal.

For instance, an order is received from a new account and we find, through his financial statement, that this is a shop that is just opening and has not a great deal of capital. Assets may be rather intangible and, from one standpoint the credit risk is abnormal.

We discuss this matter with the salesman who has booked the order and ask what value this particular customer has as a distributor. If the salesman has found out that this man is intelligent and honest and there are indications that he is a

(Continued on page 24)

Financing the Ford Dealer

The Role Played by the Finance Company

By H. C. North

INSTALMENT selling, which obtains in the sale of automobiles generally, makes it necessary for the Ford dealer as well as for dealers in other makes to seek financial assistance from sources other than the local bank. Although dealers still receive aid from the banks, it has become increasingly difficult for them to do so, and as a result the commercial credit or finance companies have come more and more to function in these transactions.

In the case of the dealer using the accommodations of the bank, he follows the procedure of any other retailer enjoying bank credit. Funds are obtained on the strength of his note, and the security of his entire business rather than the sale of a specific article is the main consideration. It should be remembered, however, that the Ford dealer finances himself in every possible way open to him. His relations with the bank and with the finance company differ according to the individual circumstances. What is attempted here is a description of the method of operation generally considered the most common.

The methods of some Ford dealers in employing a finance company to fill the breach between his payment for a shipment of cars and the receipt of his final instalment payment from the customer, varies but little from that of other dealers. He pays a slightly higher rate to the company, because of the smaller unit of sale, but this is also true of many dealers in any low priced automobile. No absolute standard rate exists, but the average would be in the vicinity of thirteen per cent. of the total return.

Dealer Pays Cash

Ford cars are sold to the dealer for cash. They are shipped from the factory usually to the local bank; save in the metropolitan district where they are driven from the manufacturer's branch, in which case the arrangement, described later, differs in detail.

When the shipment arrives, the finance company pays the bank in full and receives the bill of lading and whatever papers will give the finance company title to the cars. Its advance to the dealer is usually about 80 per cent. of the total invoice, less initial finance charges including insurance. And upon receipt of the differential the credit company turns the shipment over to the dealer.

Title to the cars is kept by the finance company under a trust receipt, and the dealer stores them on his floor or in a warehouse leased by him. The dealer thus obtains possession but not title to the cars, which must not be removed without authority from the company. It is the custom of finance companies to inspect the cars frequently to insure against damage or loss.

In the metropolitan district, as mentioned above, the dealer drives the cars from the branch; and because of the Ford company's refusal to accept the check of the finance company, the dealer pays by certified check. He then receives the usual advance from the finance company which secures itself under a chattel mortgage.

Dealer's Terms to Customer

The Ford dealer's terms to the customer are generally a down payment of one-third of the purchase price, and the balance in twelve equal monthly instalments. And with the retail sale several questions arise, chiefly; the credit standing of the prospective purchaser, the collection of instalments, repossession if the customer defaults, and disposal of repossessed cars.

The finance company naturally insists upon approving the paper which the dealer accepts from the purchaser for the dealer's own protection against credit loss. And for this purpose three different methods are employed: namely, the recourse, non-recourse, and repurchase systems.

In *the recourse system,* the dealer makes his own credit investigation subject, naturally, to the approval of the company, indorses the customer's note, and turns it over to the finance company. The dealer usually attends to collections, but in case of default the company has recourse against him. When repossession is necessary, sometimes the dealer and sometimes the finance company assumes the responsibility, but the dealer must resell the car to discharge his liability to the company.

Under *the non-recourse method,* the finance company assumes the entire responsibility. It, then, makes an independent credit investigation of the purchaser, collects the instalments, repossesses the car in case of default, and disposes of it as it may. The dealer, under this system, is virtually the selling agent of the finance company. His only function is to demonstrate the car and act as an intermediary in arranging terms.

In *the repurchase system,* the finance company more nearly confines itself to acting in the capacity of a purely financial institution. Here it has no recourse with the dealer. Under this scheme, the dealer contracts to purchase the repossessed car from the finance company, should the company be forced into covering itself by repossession.

The recourse system is the plan most generally employed today, although it should be kept in mind that there is no absolute rule governing any of the methods described.

The dealer customarily, whatever the system, receives from the finance company an advance of 80 per cent. of the invoice price less initial charges. The invoice usually includes the original purchase price, excise tax, and freight charges; tax is sometimes excluded. He pays to the finance company, or the finance company collects, the down payment of the customer and the instalments as they come due and are paid. Rates, it should be repeated, differ under the different systems. Thirteen per cent. of the total return is a low average, which applies in most cases to the repurchase system. Under the nonrecourse system, it might run as high as eighteen per cent.

The Credoscope

By Stephen I. Miller

Executive Manager, Secretary and Treasurer, National Association of Credit Men

Dollars Across the Seas

FROM down through the centuries of foreign commerce has come the maxim that "trade follows the flag." The truth of this assertion has been amply illustrated by the marine and naval policy of Great Britain. When Philip II of Spain boasted "I pass for the richest man in the baptized world; the sun never sets in my dominions," he sounded the note of high and mighty imperialism. Later Great Britain fell heir to the same ambition, backing up her world dominion with the greatest navy and merchant marine on earth. The great triumvirate of world power has always been: colonies,—merchant vessels,—battleships.

Pirates have passed from the sea and therefore no longer constitute an argument for a merchant marine backed up by a strong navy. Likewise the Nation's flag, flying from the mast of the trading vessel is no longer regarded as an undisputed argument of commercial pre-eminence. A more modern and economic argument for the upbuilding of a merchant marine is to be found in the necessity for dependable service and reasonable rates. The foreign commerce of a nation must have shipping lines when and where economically justified, and must have rates that are at least not discriminating. In this sense commerce may indeed follow the flag.

However, both of these conditions have lost much of their emphasis during the past twenty years. Steamship lines now cover the earth with sailings at such intervals as to serve the needs of world commerce. Marine rates no longer discriminate against countries and shippers as they did a few years ago. One result of these changing economic conditions is that trade is no longer absolutely dependent upon a merchant marine and the Nation's flag.

The American flag has been much more dramatic, as a promoter of foreign trade, than the quiet messengers known as American dollars. The merchant vessel, like the prairie schooner and the first railroad, was a path-finder. There has never been anything more appealing to the public imagination than the building of the great railroad lines across the American continent. How little has been heard of that army of farmers, merchants, bankers and manufacturers who moved their families and carried their savings into the country that had been penetrated by the railroad builders! Without them this country would still be a prairie and a desert. It is the flow of capital that constitutes the economic content of a country.

The citizens of the United States now have about twenty-five billions of dollars in credits in foreign lands. A decade ago conditions were reversed for at that time we were a debtor nation to an aggregate amount of several billion dollars. For the past few years our average annual foreign investments have been amounting to more than a billion dollars. When in the period just before the Great War, Great Britain and occasionally Germany, invested five hundred million in foreign countries in a single year, such vast sums were regarded as a dominating force in political and economic affairs. Yet, as great as our annual foreign investments are, they represent not more than one and a half or two per cent. of our annual income.

In foreign loans the bankers are the credit managers for the people who eventually buy the securities. They are the men who must weigh the risk, arrange the terms and stipulate the conditions that constitute protection to the individual who invests his savings in property and government enterprises across the sea.

Nations have credit ratings quite similar to business; some are intra-marginal, that is gilt edge, others marginal, which means just fair, still others extra-marginal, understood to mean not extra good but highly doubtful. Money loans are quite the same as commodity credit, and involve quite the same economic conditions.

The average individual does not clearly understand the nature and significance of foreign investments. This is largely due to the fact that the average man does not appreciate the purpose of money. The economic importance of foreign loans can be approached by pointing out the fact that at the present rate the sum total of foreign investments would exhaust our entire gold supply in two years, providing such loans were always made upon the basis of gold transfer. During the past ten years our total foreign investments would far exceed the entire gold supply of the world.

Stimulate Exports

When a foreign loan is negotiated a credit is placed at the disposal of the nation, individual, company or corporation that desires the help. This credit is created by the funds of individuals and corporations that are exchanged for the foreign security. But not always do individuals, corporations and governments draw upon the credit; it may be in part or entirely transferred to other corporations or nations in payment for obligations. Put in another way, a credit means that the creditor or the one to whom the credit is assigned has the power to settle some obligation here in the United States. In other words, foreign investments create a power to buy, the means of paying debts to the people of this country. More briefly, foreign loans stimulate exports from the United States.

When a corporation or some government in Brazil borrows ten million dollars in the United States it wants the loan for some specific purpose. It may be used to construct highways, railroads or buildings; to buy machinery for farming or manufacturing purposes; to command raw materials for industry, or finished products for consumption. Individuals and governments borrow in order to accomplish some program. In most instances they don't want the gold but commodities. Foreign loans make a market for American wheat, cotton, meats, machinery, automobiles, coal, oil and hundreds of other commodities; they furnish shipments for railroads, motor trucks and ships; they expand American markets, hire American labor and increase American wealth.

Very frequently it is said that the home market is more important than the foreign. This is true, if the statements refer to volume, for the demand on the home market is many fold greater than that outside the United States. The statement is also true in the sense that the home market is much more stable than the foreign. International trade involves surpluses and for that reason may be highly variable and unstable. Yet, the fact that foreign commerce involves surpluses means that it represents the outlet for a most important part of our productivity. If this market should be withdrawn, then commodities will be thrown back into home channels, reducing the price of the entire supply.

Not Unto Ourselves

It is sometimes said that the demand for ten per cent. of our productivity is the margin between prosperity and depression. This expression refers to the value and importance of our foreign trade. In this sense the foreign market is absolutely necessary to American industrial stability. Let no credit manager assume that he is not interested in foreign trade and foreign investments, just because his house only does business at home. By indirection he may be just as interested in the foreign market, as the exporter himself. We do not live unto ourselves alone in this modern industrial world.

There are some who believe that every foreign loan should be accompanied by a contractual stipulation, that the materials and equipment needed in the foreign enterprise should be purchased in the United States. As a matter of fact this requirement has often been a part of preliminary negotiations. This may be good sentiment, but it is poor business. It must be remembered that exports result from investments in foreign countries. A corporation or a government of Brazil is likely to buy in the market where the credit has been established. However, purchases made in other countries are quite likely to have a bearing upon our industry. Brazil may buy in England, which in turn gives England the power to buy in the United States. From an economic point of view, as well as from a social and political, the entire world is tied together; what injures one injures the other; what promotes prosperity in one advances prosperity in the other.

Few people will deny the benefit to be derived from exports, that is from selling goods. On the other hand, fewer people, even business men, look with a great deal of favor upon imports. When one says that you must buy in order to sell; that you must import in order to export, the conclusion will be generally accepted. Yet, considering the nation as a whole, imports are of as much value as exports. Foreign competition may be most destructive to a given line of business, which is conclusive proof that the foreign competitor can produce his product more cheaply. The principle at the bottom of foreign trade is to let every country produce the things for which it is best adapted. This same principle can be applied to the individual,—when we say, "let every man do the thing he can best do."

The world calls this specialization, which simply means that surpluses will be created that must be sold to others. Upon this principle, labor, capital and the business man will produce more and earn more than when a policy of trade isolation is maintained.

At any rate the twenty-five billion in foreign loans will yield an interest return of more than one billion per year. Our debtors will not, and cannot pay this interest in gold, but must meet the obligation in commodities or imports. To be sure, a large part of this credit will be used up by our tourists who are annually spending hundreds of millions of dollars in foreign lands. The United States will more and more be in the position of England, during a large part of the Nineteenth Century. For many years England had imports which in value greatly exceeded exports, and yet it was not necessary to send gold to settle the difference. Undoubtedly, our large foreign investments will increase our imports; they will also increase our exports. Following the logic of economic principles, these imports will be greater in terms of gold than our exports. This does not mean that our power to sell will be necessarily curtailed. Our total volume of foreign trade will undoubtedly be increased, unless our law makers attempt to reverse the principles upon which commerce has always rested. The market for our products is being enlarged and will be further increased by the larger imports we must expect.

Dollars Busy Abroad

Our dollars across the sea are now busy building up the prosperity of other nations. Business men must learn more about world trade and world needs, for twenty-five billion in foreign loans create a market that is only limited by the earth itself. The farmer, merchant and manufacturer have not been handicapped in any reasonable and legitimate expansion. To have poured all of our wealth increase into American industry would have brought about undue expansion, over-production and a business set-back. There is enough capital to meet progressive and constructive business demands.

And let no man in a foreign land despise the American dollar which is helping to restore a shattered industrial empire, and to develop latent natural resources. Let no man devoted to the cause of world peace, be alarmed by the rapid increase in our foreign investments, for the greatest prosperity for all rests upon the community of interests built up through credit. More important than all is the contribution in human welfare made possible by greater world production and an increased standard of living. Economic progress is a fore-runner to higher culture. Finally, the credit man must get ready for a broader economic survey than ever before. Industrial affairs are moving fast, markets are broadening, better business standards are being made available, and the margin of profit is being limited. Today the biggest word in the economic language is CREDIT.

Statement Analysis

Methods Applied by Bank Credit Managers

By Alexander Wall

Secretary and Treasurer, Robert Morris Associates

THE time has come when credit managers and business executives are waiting for, or are already analyzing, financial statements for the year of 1927. While these two classes of men are moved by different impulses, both are influenced by one common factor. The credit manager is interested in the condition of his risk. He wants to know whether it is safe to continue the account of the debtor merchant or whether 1927 has affected the debtor's affairs so adversely as to weaken his condition, perhaps to the danger point. The merchant has been carrying on for a year, largely by dead reckoning. He may know that his sales have increased and he may believe that his operations have been profitable. But, to be certain of his true condition, he must cast up his figure facts into the balance. His running records may not have acquainted him accurately with the true condition of his inventory values or his plant asset. As business passes the annual milestone of the fiscal year its stride is timed and measured, and performance noted. Rather common practice, perhaps illogically, in many industries has centered this testing time on January 1. How shall we know what the figure facts can tell us?

Among the figure facts of the financial statement are a number of salient single factors of the utmost importance to the analyst. Two of these are very generally recognized as of value and are used in their relation to each other as a method of testing for credit strength. They are the *current assets* and *current liabilities*.

There is not space here to discuss even these two factors, their make-up in selection of what is and what is not current, their reasonable relation for different types of industry and the processes by which this relation may be manipulated to effect a good showing. Those students of analysis who would advance much beyond the realm of guess, hunch or so-called credit sense, and penetrate into the real technique of complete analysis must seek beyond this article which, by its necessary brevity, can do no more than turn the spotlight of suggestion on the other tests to be made in a fair, accurate and reasonably comprehensive analysis.

All too frequently the inspirational analyst criticizes a statement as being "top heavy with debt." As a phrase, this criticism is indefinite and unrecordable. It has no comparable degree of variation. Eliminating all technical and supporting argument or explanation, a company is top heavy with debt only when the relation of its net worth to its total debt is out of proportion. Net worth and debt are both capital at use, the first owned, the second borrowed. It is reasonable to use borrowed capital if there is a proper proportional amount of owned capital. But if borrowings are proportionally out of line with net worth then a top heavy condition may exist. It is quite as feasible and possible to reduce this relation to just as recordable a figure as the current ratio. It is perhaps as important as the current ratio because funded financing may improve a current ratio, accompanied by a decline of this proportion. A study of this proportion may discount a "window dressing" process applied to the current ratio and indicate a weakening credit position several years ahead of any current ratio weakening.

We often hear a condition spoken of as being "over-inventoried." This phrase criticism is just as inaccurate as the phrase "top heavy with debt." Goods are produced or held by distributors for the sole purpose of sale. For every dollar of inventory we have a right to expect a reasonable number of sales dollars as a result. A large dollar inventory is not excessive if it is properly liquid, as reflected in the relation of net sales to it. Here again it is possible to establish a recordable figure, to create an inventory history by relating sales to inventory on successive dates and noting the tendencies. The full technique of using this ratio is too complex to describe accurately in an article of this length.

The other salient proportions as between the factors on the statement regularly used in analysis by the writer of this article are those proportions which exist between Net Worth and Fixed Assets, Sales and Receivables. Sales and Fixed Assets, Sales and Net Worth, Net Profits and Net Worth and Net Profits and Sales.

The Arbitrary "Two to One"

Not long after the analysts had discovered the importance of the Current Ratio, rather than the dollar margin between current assets and liabilities, they began to idealize it and, worst of all, to standardize it. Little by little the opinion grew that the butcher, the baker and candlestick maker should all show a current ratio of two to one. An intolerant and arbitrary standardization became almost general practice. It would be almost as reasonable to insist that every man must wear a number seven shoe.

Now it is quite manifest that a number seven shoe would be too small for some and too large for others, although it would exactly fit certain people. Because this would be a physical problem we can tell whether our shoe fits and secure a proper size. But current ratios (or, for that matter, any other ratio) is an economic figure problem which we cannot try on.

Industries are just as different from each other as feet. Their financing, fabricating and distribution problems are often decidedly different. It is nonsensical to make them all wear a two for one current ratio. Certainly one of the duties of the conscientious credit manager is to *know the size of the current ratio which is usual for different industries,* and measure the cotton mill, for instance, by its common factor rather than by the size of a current ratio usual in the packing industry.

This credit chemistry, or minute

examination of the figure facts related to credit data, is one of the activities of the Robert Morris Associates which is a banking group of members of the National Association of Credit Men. To these men this type of work is important from two standpoints; *first* as personal knowledge to themselves, to be used in a protective way against bad loans; *second* in a co-operative way so that they may indicate to their customers existing disproportions and help them to correct dislocations before they become dangerous. The examinations into the usual proportions of industries covered seventy different types of business in 1927 and it is probable that the research work this year will be even wider. Space again prevents a technical, and fully complete, exposition of the methods used; but—while the student of credit must again be referred to other literature for the complete story—it is possible to outline some of the principles involved.

Collecting the Data

The first step is to collect as wide a sampling of statement data as possible in each industry under examination. The second step is to consolidate the separate statements into an industry statement. This is a simple process of addition. At this point the laboratory has a statement so huge that its very bulk would prevent its effective use. For example, the December 31, 1926, dollar industry statement of Department Stores was as follows:

COMBINED STATEMENT

One Hundred and Eleven Department Stores

As about December 31, 1926

Assets	
Cash	$ 32,711,000
Receivables	116,029,000
Inventory	141,628,000
Listed Securities	5,558,000
Misc. Current	687,000
Current Assets	$296,613,000
Fixed Assets	225,640,000
Total	$522,253,000
Liabilities	
Payables	$ 76,595,000
Taxes	4,890,000
Misc. Current	11,110,000
Current Liabilities	$ 92,595,000
Funded Debts	66,945,000
Total Debt	$159,540,000
Net Worth	362,713,000
Total	$522,253,000

This statement so obviously overshadows any single statement that it is reduced to a common size on the basis of 100 per cent. for the totals. In this shape it appeared as

Assets	
Cash	6.26
Receivables	22.22
Inventory	27.12
Listed Securities	1.06
Misc. Current	.13
Current Assets	56.79
Fixed Assets	43.21
Total	100.00%
Liabilities	
Payables	14.67
Taxes	.94
Misc. Current	2.13
Current Liabilities	17.74
Funded Debts	12.81
Total Debt	30.55
Net Worth	69.45
Total	100.00%

To this was added the common size figures for sales and profits computed against such statement totals as carried this date.

Sales	157.92%
Profits	6.49%

For this same industry the ratios, or salient proportions, were computed by a process too long to describe here. They were as follows:

Current Ratio	280%	or	2.8	to	1
Worth to Fixed	225%	"	2.25	"	1
Worth to Debt	210%	"	2.1	"	1
Sales to Rec.	655%	"	6.55	"	1
Sales to Mdse.	515%	"	5.15	"	1
Sales to Fixed	550%	"	5.5	"	1
Sales to Worth	230%	"	2.3	"	1
Profits to Worth	10.1%				
Profits to Sales	4.5%				

Each of these ratios and each item on the Common Size Statement has wide ranges of usuals according to types of business. It is no longer necessary to try to force a single proportion on all industries, being too lenient in some and too critical in others. The usual for each industry is developed from comparable data within the industry and the butcher, the baker and the candle stick maker can now be measured by what industry activities have made usual for each rather than by a common average.

There is a reasonable amount of literature available to those analysts who may wish to examine into these newer methods and learn their use. The substitution of records of proportion for inspirational feats of memory is introducing fairness and a greater accuracy into statement analysis.

The writer has been interested in the development of this research work by the Robert Morris Associates mainly because it should tend toward greater mutual understanding of credit problems and their analysis by bank credit managers and other business executives. When both appreciate the variations in type proportions and strive jointly to maintain and achieve reasonable requirements, we are assured of harmonious relations.

Something has been done. Much still remains to do, in order to advance this research from its laboratory state to the acknowledged position of true indicative value. Analysts must continue the study of credit and its technical analysis. There must be co-operation and, eventually, a credit science, with all the accuracy of a science, will emerge.

Reuben H. Donnelley Pays $700,000 Outlawed Debts

FROM time to time the CREDIT MONTHLY has told of men who voluntarily paid debts which were long outlawed. The latest conspicuous example of this type of fair dealing is the news that Reuben H. Donnelley, at the age of 63, paid last month an aggregate of $700,000 to 300 creditors of the brokerage firm, Knight, Donnelley & Co., which failed in 1905.

Mr. Donnelley, a past president of the Chicago Stock Exchange, was a partner in the firm which was able to pay only 27 cents on the dollar to its creditors, all of whom signed full releases, acknowledging that they had no further legal claim upon the partners. Making a new start at the age of 41, he built up a publishing business and is now president of the Reuben H. Donnelley Corporation, publishers, and Vice President of R. R. Donnelley & Sons, printers.

The $700,000 represents 73 cents on the dollar which the creditors thought they had lost for good, together with interest at 5 per cent. for 22½ years.

The above statement has been officially O. K.'d by Mr. Donnelley and comes to the CREDIT MONTHLY *directly from St. Luke's Hospital, Chicago, where Mr. Donnelley is recuperating from a severe illness. All the readers of the* CREDIT MONTHLY *will wish Mr. Donnelley a rapid recovery and restored health.*

One Month's Convictions

(November, 1927)

Obtained by the Credit Protection Department of the National Association of Credit Men

Case	Persons Convicted	Charge	Sentence
Merchants Novelty Co. N. Y. C.	Jos. Friedman	Conspiracy and using mails to defraud	2 years Atlanta, 3 years Probation
Phillip Handler N. Y. C.	Jos. Friedman	Conspiracy and using mails to defraud	2 years Probation
L. Brinn & Sons N. Y. C.	Joseph Brinn	Issuing false financial statement	60 days
I. G. Weinstein, Inc. N. Y. C.	Isadore G. Weinstein	Concealment of assets	1 year 1 day
Emelock Bros. Brooklyn, N. Y.	Herman Emelock Abraham Emelock	Concealing assets	1 yr., 1 day Six months
Kingston Textile Mills N. Y. C.	Max Rebhun	Issuance of false financial statement	Deferred until a later date
Goldman & Rubin N. Y. C.	Solomon Goldman David Rubin	Issuance of a false financial statement	15 days 15 days
Benjamin Sheinman Pittsburgh, Pa.	Benjamin Sheinman Max Sheinman Abe Sheinman William Sheinman Joseph W. Rabinowitz Meyer Luber Jacob Fierman	Conspiracy to violate National Bankruptcy Act	Sentence Deferred
Adolph Aronson Patton, Pa.	Adolph Aronson	Violation Section 215	Paroled for two years
Sol Raphael Boston, Mass.	Sol Raphael Barnett Angoff	Conspiracy to conceal assets Conspiracy to conceal assets	1 yr. and one day Fined $500 and suspended sentence
A. L. Roberts Spencer, W. Va.	A. L. Roberts	Violation of Postal Laws	Fined $600
Louis Miller Dept. Store Cordele, Ga.	Louis Miller	Violation of Postal Laws	One year and one day
Jay Goldberg Toledo, Ohio	Jay Goldberg	Embezzlement	1 to 20 yrs. Ohio pen.
Crystal Park Plumbing & Heating Co. Canton, Ohio	Alois Kleiver	False oath	30 days in Jail and costs
National Embroidery Co. St. Louis, Mo.	Louis Bloom	Sec. 215 U. S. C. C.	Fined $4000
Peter Hershenson Chicago, Ill.	Peter Hershenson	Concealment	60 days in Jail
Carl Kimming, alias Francis Wilson Chicago, Ill.	Carl Kimming	Confidence Game	8 months in Bridewell
Taylor Square Furn. Co. Cleveland, Ohio.	Alfred Ruthenberg	Evidence obtained by Credit Protection Dept. in Bankruptcy investigation caused indictment and conviction of Ruthenberg under Pro. Act	1 yr. and 1 day in Atlanta
George Robinson Port Huron, Mich.	George Robinson	National Bankruptcy Act	6 mos. in County Jail

Suggestion: The above information will enrich your credit files!

Accounts Receivable

Second of a Series of Articles on Credit Engineering

By Raymond E. Bell

THE president of Raymond E. Bell, Inc., management engineers, New York, has been retained by the CREDIT MONTHLY *to supply a series of articles on credit work from an engineer's standpoint. His experience includes the management for several years of the credit department of a corporation of which he was an officer.*

CREDITS are to sales what the egg is to the hen The one multiplies and propagates the other. A sale on credit is a release of merchandise from direct control and the acceptance in its place of an obligation in the form of a deferred payment. When that obligation is met at the proper time by a return in value, the process repeats itself. When it does not, the relationship languishes and dies and the remains are cleared away as poor experiences.

Sales on credit are Accounts Receivable and the Credit Manager thus becomes a partner of the salesman in the transactions with the customer. The salesman is the promoter of the deal and the Credit Manager is the appraiser of the obligation which grows out of it. The most current information in carrying out this duty is the experience with customers as indicated in the Accounts Receivable record.

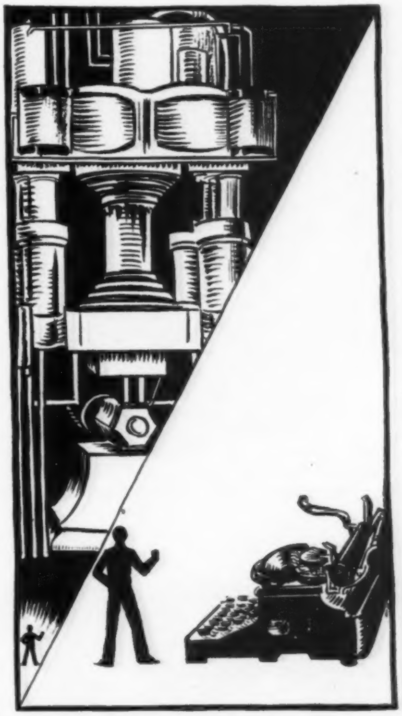
In the usual forms of business, an account with a customer is a continuously varying situation. Like the tides, it ebbs and flows. At one time it increases with the shipment of merchandise or rendering of service. At another, it decreases with the receipt of payments. As with the records of all human transactions, it pulsates and, with equal similarity, these vibrations may follow one another with the buoyancy of health and strength or, on the contrary, they may sag into the sluggishness of disease and weakness.

Accounts receivable are the detailed score card of the Credit Manager's batting record. They are the testimonial of his ability as a judge of human affairs and their outcome. His association with the Accounts Receivable records in any organization is always intimate. Often they are directly within his jurisdiction. They are of vital consequence to him and he must have a thorough knowledge of the operating difficulties which they entail.

Simple in Character

So far as accounting procedure is concerned, Accounts Receivable transactions are of the simplest character. On one side there is the record of sales and on the other the payments or returns and other allowances. It is not in accounting theory, but in the practical execution, that the difficulties loom large.

Credit problems increase for the most part in proportion to the amount of the indebtedness. Accounts Receivable difficulties are in proportion to the number of transactions. When there are many payments for each sale or many sales for each payment or when, in either instance, the average transaction involves a small amount—then the operations of Accounts Receivable reach the stage of mass production. Those mechanical methods, which have been so useful in handling large volumes of production in the factory, must be admitted to the office if anything like economy in the dispatch of business is to prevail.



THE MULTIPLICATION OF MAN POWER *has gone further in the factory than in the office*

Accounts Receivable are among the earliest known records in bookkeeping. Their origin dates back beyond the pen and ink age of business. They have thus been able to gather all the hoary prestige that goes with hand methods and are still held in the grip of tradition in more enterprises than is commonly supposed. Through persuasion, argument and proof of use, the camel's nose of machine operations has gradually insinuated itself into the stronghold of established habits and customs. But even at that *we are only now at the gateway of the machine age in the office.*

When and Why the Machine Comes Into Use

The machine in the office will never completely replace its human operator. The multiplication of manpower by the use of machinery has gone further in the factory than in the office. Some men doubt that the machine will ever be the conserver of energy it has become in the factory. But it has already made the work of the office simpler and more effective; and, in this day of limited supply of trained competent workers, that is no mean accomplishment.

I recall the time when business schools taught mental adding with a view to speed and held contests in this valued art. Where do you hear today the inquiry as to qualification for office work: "How fast can you

add?" The machine has helped us over this dreary and wearing accomplishment.

It was not so many years ago when penmanship was taught with great care and considered of enormous consequence in accounting. Lack of skill of hand need not now be an obstacle to modern practice.

Volume has opened up the way to standardization. Much repetition makes the machine possible. It is impossible to lay down a general rule as to just what time a business or department has reached the stage in its development when it can utilize machines in the office to good advantage. The habits of mind and the progressive spirit of the particular organization have much to do with it. In some instances a business of large volume finds it harder to adopt machine operations than does a smaller business.

In general, it may be said that most businesses accept the machine after, rather than before, its time has arrived. Gradually, as transactions increase, the method of writing invoices by hand gives way to the typewriter; the mental figuring of the invoices is superseded by the calculating machine; later there is a combination of the two in one machine. The old wet-copy book is replaced by the carbon copy; the hand-posting proceeds to the unit or dual machine posting. Then, in one operation, the laborious task of preparing statements at the end of the month is eliminated — whereupon the difficulty of issuing them on the first of the month well nigh disappears.

This accomplishment of mailing statements promptly, no matter how numerous, has been of unusual significance to the Credit Manager. "First in, first served" is a well known principle in the payments of accounts. No progressive Credit Manager likes to take the chance of a blot on his record merely because of belated statements, when he knows that there are economical and up to date methods for avoiding such risks.

Big Douglas Firs in Ranier National Park
Delegates to the National Association of Credit Men's Thirty-Third Annual Convention, to be held June 11-15 in Seattle, will have an opportunity on the Saturday following the Convention to visit Ranier National Park.

Nor can we overlook the important part played by the loose leaf in accounting records. What an innovation, what a "loss of control" it was at first thought to be! The bound volume was once considered the acme of assurance and records protection in Accounts Receivable. It was argued that one, with insidious intent, could not tear out a page and make off with it—that leaves of a bound book could not be mislaid or lost. I have even listened to a eulogy of this ancient guarantee within the last five years.

The Ancient Bound Volume

Had the bound volume tradition been able to maintain its ground against the innovation of loose leaves fluttering (as it was supposed they would) in the office winds of careless manipulation, there would certainly have been an end to the machine idea in the office. The machine idea involves the sheet or the card, not the book, and to its credit it has been found to be quite as safe a guardian of security and accuracy as its bound antecedent.

The increase in volume of sales transactions has brought with it another problem, that of physical access to the records. It is clear that the record of customers' accounts is vital to the Credit Manager and must be readily available. But as it grows, equipment becomes more and more concentrated and immobile. Its forms need to be kept in a prearranged order. Its files must be maintained close to the machine operations. But posting sales and posting payments with convenience and economy is one thing—having the status of delinquent accounts currently at hand day by day is equally imperative.

Much nice planning and ingenious manipulating have been undertaken to meet this situation and the results have been varied. Duplication of the records for the use of the Credit Manager is sometimes looked to as a solution. Such a method needs mature deliberation, however, before a task so detailed can be justified. This vital question of accessibility of records will be taken up in the next article in this series.

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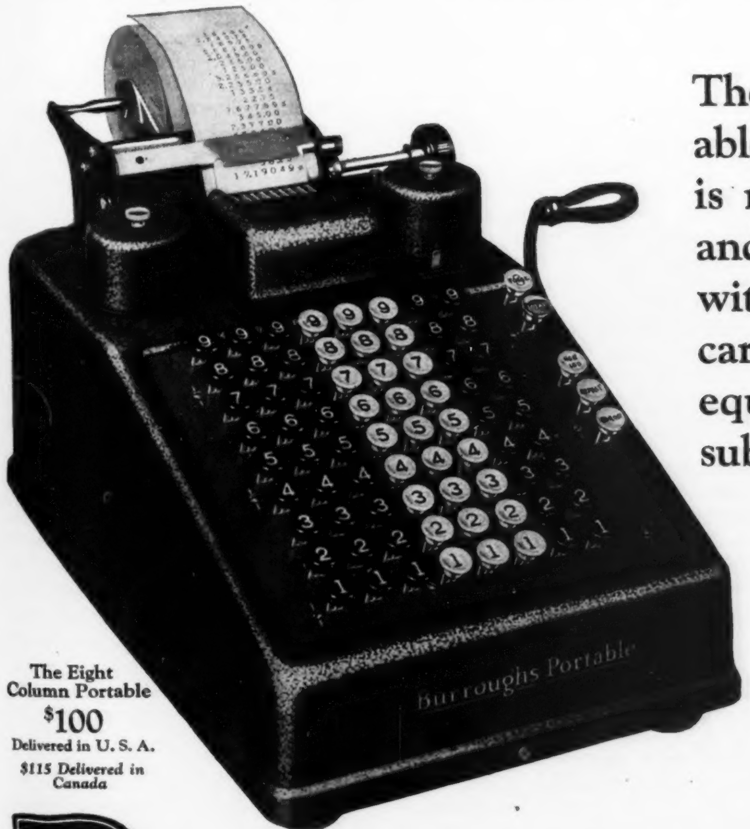

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Answers to Credit Questions

National Association of Credit Men

One Park Avenue, New York

As To Legal Advice

THE National Association of Credit Men supplies answers to credit questions and some of the answers, of general interest, are printed regularly in the Credit Monthly. Advice cannot be given, however, regarding legal rights and liabilities. Such advice should be obtained from an attorney to whom all the facts should be stated. When such inquiries are received, information is furnished only as to the general principles of law involved.

—*E. P. P.*

Trial Shipments

Q. What is the best immediate way of protecting ourselves as regards the retention of title to equipment placed with a customer on trial?

A. If the question is limited to the retention of title as against the purchaser only, without regard to creditors of the purchaser, any form of agreement between the parties to the effect that title to the machine shall remain in the seller until payment of the purchase price, is sufficient, provided it is so drawn that it fully evidences the intention of the parties.

As against third persons, (that is, creditors of the purchaser or against a trustee in bankruptcy of the purchaser), a more formal agreement in the nature of a consignment is desirable, and will give adequate protection in most states. A few states, however, regard consignment contracts as contracts of conditional sale, and require them to be filed in order to retain title as against third parties. Among the states so holding are Arizona, Mississippi, Nevada, North Carolina, South Carolina, South Dakota and West Virginia. Local counsel should be consulted in each case.

Checks

Q. A depositor of a bank deposits checks and the bank gives the depositor credit for the amount of the checks deposited. The bank in its regular course of business passes these checks to the bank upon which they are drawn; however, several of the checks deposited on a certain day never reached the bank on which they are drawn, being lost en route. The bank charges the account of the depositor for the amount of the lost checks and requests that duplicate checks be received from the depositor's customer.

Can the original maker of the checks be compelled to give a duplicate? Can the bank compel its depositor to pay the amount of the check lost by them or their correspondent bank?

A. No Pennsylvania decisions exactly in point have been found. The following cases have some bearing upon the question, however, and are enlightening. *Cohen vs. Tradesmens National Bank,* 262 Pa. 76; *Morris vs. First National Bank,* 201 Pa. 160; *Bradstreet vs. Emerson,* 72 Pa. 124; *Liver vs. Stearne,* 155 Pa. 62.

As to whether the original maker of the checks can be compelled to give duplicates, the answer is clearly "no." But, if the checks have been lost and have not been charged to the maker's account, the indebtedness still exists and the maker of the checks can be sued for the amount of the indebtedness.

As to whether the bank can compel its depositor to pay the amount of the checks lost by them or its correspondent bank, the general rule is that a bank which has taken paper for collection and has credited the same to the account of the depositor is entitled to charge back the amount of the check in the event that the same is not honored or collected. If the checks were lost because of the negligence of the bank of deposit, or because of the negligence of a correspondent for which the initial bank could be held responsible, and actual damage has resulted to the depositor, the bank can be held liable. For a full discussion as to the right of a bank to charge back paper taken for collection, see 11 A.L.R. 1043; 16 A.L.R. 1084; and 42 A.L.R. 492, 495.

This is not intended, or to be relied upon, as advice as to any actual transaction in which the inquirer's rights may be involved. If such a case actually exists, the advice of local counsel should be sought and followed.

Trade Acceptances

Q. With reference to the new construction of trade acceptances as recommended by the Federal Reserve Bank, what is the legal status of the holder of acceptances in case any one acceptance is not paid at maturity? What would be our position in case we desire to take action against the debtor for our entire claim against him? Provisions on the old form of trade acceptance read as follows: "The obligation of the acceptor of this bill arises out of the purchase of goods from the drawer. Upon the acceptor hereof committing an act of bankruptcy, suspending payment, giving a chattel mortgage, suffering a fire loss, disposing of his business or failing to meet at maturity any trade acceptance, this trade acceptance at the option of the holder without notice to its acceptor shall immediately become due and payable." The new form reads as follows: "This obligation of the acceptor of this bill arises out of the purchase of goods from the drawer."

A. Provisions for the acceleration of the time of payment of a negotiable instrument such as a provision maturing the same in case of insolvency, have been held not to affect its negotiability.

Chelsea Exchange Bank vs. Warner, 202 N. Y. App. Div. 499.

Gaston vs. Boston Penny Savings Bank, 230 Mass. 33.

McCornick vs. Gem State Oil etc., Co., 222 (Pac.) (Idaho) 286.

It would seem from these decisions that the special provisions incorporated in the long form quoted above may properly be included in a trade acceptance without impairing its validity or negotiability. Where such special provisions are omitted as in the form suggested by the Federal Reserve Board quoted above, failure to pay any prior trade acceptance would not accelerate the time of payment on any subsequent trade acceptance and the holder could not take action against the acceptor of the trade acceptance for the collection of the entire claim, but would be limited to separate actions on each trade acceptance as it matured.

Liability

Q. A New York concern has been selling a customer in Atlanta, Georgia. The customer was a partnership but after purchasing a considerable quantity of merchandise from the New York concern, incorporated. Subsequently the corporation filed a petition in bankruptcy. Can the partners still be held liable for the partnership indebtedness?

A. They can, unless they have been released by the seller, and the corporation's responsibility accepted in place of the liability of the partners. The claim against the partners is not provable in bankruptcy against the corporation. The corporation's liability is limited by merchandise purchased by it as an entity entirely distinct from a partnership. The transfer in bulk of the assets of a partnership to a corporation has been held to be within the Bulk Sales Laws of several of the states. The Georgia statute, however, is limited to a sale "for cash or credit." If the transfer in this instance from the partnership to the corporation was, as is probable, in exchange for stock of the corporation, it is probably not within the Georgia statute. See *Moskell vs. Alexander,* 170 Pac. (Wash.) 350.

Your Favorite Sport

Business Service Game Competes With Golf

By E. G. Olney

The Crane Co., Spokane

ARE you one of that group of red-blooded, deep-breathing Credit Managers to whom the hum of a reel is sweeter music than the clink of coin? Do you get a 60,000-volt thrill when you slip the net under a three-pound trout—and then remain unmoved when you slit an envelope and pull out a fat check from an account long ago charged off?

Have your pulses raced as you watched your drive go straight down the fairway, across the little lake, pass the 250 yard stake—and then as you hold your breath, make 290 yards? Oh Boy! What do overdues matter when the little god of luck sits on your clubhead?

Good sportsmen are these Credit Managers—giving the other fellow an even break, and if he is off his luck for a while, a slap on the back and a cheering word.

That accounts no doubt, for the many inquiries about this game called Business Service that Credit Managers all over the country are playing. A game with the zest of fishing and the uncertainty of golf. Today the fish may not bite, or the drive may not be so good—but Business Service is a sport full of zest for every day of the year.

Do you remember that chap down the line whose account was in such bad shape that it looked as if he were going to fade out of the picture? After your visit, he hitched up his belt and got right down to business. You wrote him a lot of friendly letters, each with a helpful suggestion, and now he is all paid up and discounts every month. Makes you feel good all over, doesn't it? Not quite so zipping as landing a big fellow or the good mileage on the drive—but a mighty fine feeling just the same.

By the way, the Credit Manager who wanted to close up and take his loss on this same customer who paid out, is one who just wrote in to inquire about this Credit Manager's game. He wants to play but he doesn't know just how it goes, nor how to begin. Be sure to send him the rules, for he is going to get a big kick out of it just as soon as he starts to play. Help him all you can and give him lots of encouragement—the play is new to him and he may make a few mistakes.

During the next few years the National Association of Credit Men is going to stage a few tournaments and there will be some interesting match play. The rules are made to suit your local conditions and it is open season the year round.

If you do not now have one, why not form a Club in your Association? If there is an account in your territory that is gradually growing worse,

(Continued on page 29)

Credit for Ideas

By R. A. Millard

"GOOD morning, Mr. Publisher. I have a red hot idea for a book," remarks the Established Author as he strides confidently into the editorial sanctum. "If you will hand me a check for $1,000 today, I will promise to write, within six months, a book based on this remarkable idea." He then outlines the idea.

"Very good, Mr. Author," rejoins the publisher, knotting his brow with rapid calculations. "Let us sign a contract for a book about this idea to be completed by yourself within six months. Here is an advance check for $1,000; we will give you another advance of $1,000 when the manuscript is completed and in our hands."

A credit transaction such as this might be enacted in the office of any one of many of our leading publishers of books. Executives of eight concerns interviewed admitted that their house policies provided for the advancing of credit to established authors upon the security of ideas which the authors proposed to develop into books in a specified time. The use on a broad scale of this credit policy has developed since the Great War. It is the result of keen competition between publishing houses and the fact that authors, under the tutelage of literary agents, have become expert salesmen of their wares.

"With the established author the publisher is quite safe in offering credit for ideas," declared Pierce Butler, representing the editorial department of D. Appleton & Co. "He knows from past experience that a certain author is an industrious and reliable craftsman who turns out approximately a book a year. Twenty thousand copies of his previous book were sold. By his contract the author received a royalty of ten per cent. on the retail price, $2.50, for the first 10,000 copies sold. It was a sliding scale contract. The author received twelve and a half per cent. of $2.50 on the next 5,000 and fifteen per cent. on all copies of the book sold above 15,000. Thus the author's royalties on the first 10,000 copies sold were $2,500; on the next 5,000 they amounted to $1,562.50; on the last 5,000 they would be $1,875. The author's total gain from his book, of which 20,000 copies were sold, would be $5,937.50.

"Provided the author has written several books which have had a sale of 20,000 copies, the publisher considers that a good idea which the author promises to write into a book is sound security for the advance of $1,000 at the time the idea is presented; and $1,000 when the completed manuscript is presented. Thus credit is allowed for $2,000 when the publisher is reasonably sure that the author's book will earn at least as large royalties as his previous books —that is, in excess of $5,000."

"In the case of a notable author, publishers are often willing to advance much larger sums of money upon the writer's promise to complete a book within a given time upon an outlined subject," declared Isidor Schneider, executive of Boni and Liveright. "In some cases the entire amount of the expected royalties might be advanced before the book is put on sale. Of course such arrangements could be undertaken only in cases where the author's previous books had established a stable sales record.

"When an idea for a book concerns an event of current interest, publishers are often willing to advance money and sign a contract for a proposed book upon receiving merely an outline of the subject matter. 'We,' by Colonel Charles A. Lindbergh, is an example. Any publisher was sure of securing a wide sale for any book written by Colonel Lindbergh while he was in the limelight as a great national hero. To secure the rights to publish such a book, publishers felt that they were financially justified in acceding to any reasonable demand for advance royalties.

"The probable sale of any given book is estimated in part by the size of the edition that can be disposed of to the bookshops of the country. It is virtually impossible to estimate the sale of a new book, even by a known author, to the reading public; but it is possible to estimate with considerable accuracy how large a first

printing will be absorbed by the retail book trade. In this connection, it may be worth noting that there is a distinct difference in the publisher's mind between a 'known' and a 'notable' author and this fact enters into the amount of credit which can be safely extended in advance royalties.

"In some cases it is possible even for unknown authors to receive financial credit from publishers upon the security of ideas. For example, a publisher can count on a definite buying public for any book on Roosevelt. No matter how dull, how poorly handled the book may be, the fact that it concerns a much worshipped public figure like Roosevelt will assure a definite advance sale.

"So, if an unknown author comes to a publisher and proves convincingly that he is on the trail of some important biographical material and can assure the publisher of his industriousness and reliability—he may be able to receive some advance money on the book before he has completed it.

"This does not apply to fiction writers; because publishers have found it impossible to anticipate the sale of a novel by an author whose name is unknown to the general public. Sometimes a novel by a novice will achieve a tremendous vogue; but this is too rare an occasion to justify allowance of credit to the author."

"In some cases I believe it is customary to allow established authors an advance of nearly the whole sum of expected royalties," said Henry Meade Williams of J. H. Sears and Co. "If H. G. Wells should go to a publisher and say, 'I will bring you my next book about such and such a subject, if you will give me an advance check for three-fourths of the total amount of royalties I received upon the last book of mine that was published in America,' the publisher would undoubtedly consent. If he found that the average $2.50 book written by Mr. Wells sold 60,000 copies, he would feel justified in offering say $10,000 credit for his forthcoming book. In the first place, it would lend his house prestige to become Wells' publisher. In the second place he would be justified in believing the author's promise to complete the book by a certain time. Past records would indicate that a book by Mr. Wells could be counted on to sell 60,000 copies.

"Booth Tarkington could probably command a large advance credit on a book which he promised to write. Zona Gale, Willa Cather, Kathleen Norris, Fannie Hurst and many others have an established market for their books. The publisher can anticipate a large advance sale for their works and can afford to be generous in regard to credit advances."

A Recent Development

The general policy of credit advances, now in vogue among publishing houses, is a comparatively recent development, according to the publishing house executives interviewed.

"Competition among publishing houses to secure authors is keener than ever before," declared the editorial head of a large house. "The natural result of such competition is the offering of more and more attractive terms to competent authors. Formerly it was considered professional bad manners to try to induce an author to leave one publishing house for another; but today competitive bidding holds full sway.

"Today the author is much more of a business man than ever before," continued the publisher. "He has gained commercial sagacity through

his close association with literary agents. Even ten years ago only the most eminent of authors dealt with literary agents. But today such agents offer ready aid to quite unknown writers and endeavor to nurse them along the road to greatness and the accompanying big profits.

"Through the efforts of the literary agent the author has become conscious of the power of salesmanship. Writers who have won reputations for competent and industrious craftsmanship are now able to receive credit for ideas which they contract to turn into book form."

All of the publishers questioned said that they believed in the credit idea if administered judicially, in accordance with the past performance of the author, and the soundness of his proposed ideas for the new book. In some cases the publishers admitted that certain books by established authors had fallen below expectations as far as sales were concerned. In spite of this they said that the vogue for giving credit on unfinished manuscripts is increasing rather than decreasing.

Credits in the Hat Business

(Continued from page 10)

man of ability (this point is somewhat stressed) we will go ahead.

In other words, we will extend reasonable credit to any man who is honest and can convince us that he has a reasonable chance for success. We will even assist him to become established by staggering his order into shipments so timed that the billing will meet his needs. Naturally, we offer many constructive suggestions as to merchandising, advertising and other matters.

Facts and Common Sense

This is using character as a basis of credit in a very literal sense. In spite of this—perhaps because of it—our losses through bad debts are wholly insignificant.

Economists have pointed out that this is a period of vanishing net. Gross receipts and overhead have pyramided sky high and net is dwindling. The obvious answer is a tightening of control and the elimination of waste.

Credit executives have a major part in this work. Not only can they eliminate the waste occasioned by bad debts but, by the careful granting of credit, they can cut down the loss occasioned by slow collections.

In our organization we place little stress on special forms or elaborate systems. But we do stress facts and common sense as the basis for all matters of credit policy. We have built up good will among our 13,000 customers here and abroad. We have negligible credit losses. We work in close harmony with our sales department.

We do not pretend to a perfect system nor are we so self satisfied as to believe that there is no room for improvement in our methods. But we do feel that we have met the problem of credit granting in a practical way which, however conservative its basis, is in accord with the most modern credit principles and is fair to the debtor and to ourselves.

G for Gruen

THE following system of key words used in transmitting names by telephone was put to use in its present form in 1910 by the Western Union Telegraph Company. It is now in use by the Western Union and the Postal Telegraph Cable Company.

A for	Adams	N for	New York
B "	Boston	O "	Ocean
C "	Chicago	P "	Peter
D "	Denver	Q "	Queen
E "	Edward	R "	Robert
F "	Frank	S "	Sugar
G "	George	T "	Thomas
H "	Henry	U "	Union
I "	Ida	V "	Victor
J "	John	W "	William
K "	King	X "	X Ray
L "	Lincoln	Y "	Young
M "	Mary	Z "	Zero

A zealous member of the National Association of Credit Men suggests that it would be more appropriate for the credit fraternity to use the following names which are for the most part those of directors of the N. A. C. M., or otherwise prominent in the credit world:

A for	Atwood	N for	Nash
B "	Brown	O "	Olney
C "	Choate	P "	Pouch
D "	Davies	Q "	Quackenboss
E "	Erickson	R "	Rock
F "	Fraser	S "	Scales
G "	Gruen	T "	Tarlton
H "	Hanson	U "	Uehlinger
I "	Ide	V "	Value
J "	Jordan	W "	Wood
K "	Karel	X "	X-cuse
L "	Lambert	Y "	Young
M "	Miller	Z "	Zeal

Obituary

William Dalchow

THE sudden death of William Dalchow, Credit Manager of the American Chicle Company, Long Island City, N. Y., on December 3, was a great loss to both the National Association of Credit Men and to the New York Association. Dr. Dalchow was a most interested and active worker in the New York Association, being a member of the Forum and Adjustment Bureau Committees, and a charter member of The 475 Club. He was a faithful attender of National Conventions.

An essay on the subject "Procedure for Rapid Clearing of Credit Information and Orders," written by Dr. Dalchow, won a prize offered by members of the Paint and Varnish Group of the Association.

Paul Hunter

IN the ranks of the credit fraternity a vacant place that cannot be filled has been created by the recent death of Paul Hunter, Credit Manager of L. Erstein & Brothers, Inc., New York. Mr. Hunter brought to his work an unusual background of technical equipment, and experience in many fields gained as he worked his way to the highly responsible position he held at the time of his death. He had been Credit Manager of L. Erstein & Brothers, Inc., for eleven years, and for two years secretary of the concern.

In the National Association of of Credit Men, and in the New York Credit Men's Association, one form that Paul Hunter's activity took was the vigorous support of the movement to create the Credit Protection Fund.

His vigilance in unearthing dishonesty and seeing that punishment was meted out brought him the respect of honest merchants and the fear of the commercial criminal.

Foam from the Three C's

The Credit Manager Turns Society Reporter

A LARGE number of the elite, many of them only a nose ahead of the sheriff, turned out last evening for the closing dinner-dance of the season at the Trap and Bunker Country Club, upon whose handsome club-house a second mortgage was placed last week. The club's rule about posted members was waived in order that those who have not paid their club dues for two years or more might be present. A distinguished line of automobiles left no doubt as to the importance of the affair. All but four of these were bought under the acceptance plan which has become so popular. Many of these were fitted with tires purchased on charge accounts.

A number of beautiful creations were seen, concealing very little except some terrific struggles by husbands or fathers in the way of raising cash or wheedling the stores for further accommodations.

Mrs. F. N. See looked regal by virtue of having made a recent payment on account, her outfit costing just four times as much as the sum paid on account. Mr. See did not appear to be having a wild time—but then, for some obscure reason, he is always pre-occupied and serious.

Among the charming frocks was a Paris model worn by Mrs. Goodley Staller (rating undesirable) which attracted a great deal of attention. Mrs. Staller had thought she could not be on hand because she had nothing to wear. A few weeks ago, however, her husband borrowed enough on his insurance to get the few things which Mrs. Staller had to have if they were to hold up their heads in the community. The family already had lost some caste because of reports, circulated by Mr. Staller's bootlegger, about a dispute. The occasion for the quarrel was that Mr. Staller said his check was just as good as the bootlegger's wares.

Mrs. Pace-Low was lovely as always in a simple, much-admired model which will be paid for, as is her custom, on the tenth of next month, or later. None of the throng in attendance was more gracious, none was more charming than this delightful young matron. She wore her famous pearl necklace, borrowed from her brother, the well-known Chicago jeweller.

Some of the most prominent citizens of the town were absent. Tom Jones, of the Bee Hive Department Store, said that 30 per cent. of the people there would not catch up in their bills for nine months—if at all—and he didn't want to be where he would have to think about it.

The usual crap game was held in the locker room with from twenty to twenty-five of our most insolvent good fellows participating. Checks and I. O. U.'s predominated.

B. S. F.

Somewhat Confused

TO P. R. Puckett of the Aalfs Paint and Glass Co., Sioux City, the CREDIT MONTHLY is indebted for the following copy of a letter. This "mixture of confused terms and possible truth" will, Mr. Puckett hopes, bring a smile to the face of many of his fellow credit managers.

"Dear Sirs:—Received your statement for Richard Roe (deceased) and will be glad to send you your share of the money when it is collected in, it will be prorated among his debtors.

Yours truly,
JOHN DOE, Guardian."

Another Safeguard

"Inside Showers" Insurance Protects Merchant's Credit

By Clarence T. Hubbard

EVERY student of credit has at least heard of "rain insurance" as a financial protection from out-of-doors showers. Few are as familiar with another form of insurance protecting against inside showers—the little leaks, or as the case may be, the thundering showers of sprinkler bursts or breaks. Yet both forms of insurance may safeguard a merchant's credit.

Sprinkler systems are today playing a major part in the fight against our national fire loss which is so overwhelming in this country. Not only are the insurance companies recommending the installation of sprinklers but so also are the many engineering associations, architects, builders and contractors.

The very low fire insurance rates which are made available to properties protected by sprinkler equipment has led to a constant growth of this fire prevention method and today we find not only factories so equipped, but public buildings, schools, department stores, theaters and warehouses and even dock terminals.

When the Credit Manager is dealing with a merchant debtor he is often asked about the installation of sprinklers. The peculiarities and functions of sprinkler leakage insurance are therefore described and explained in this article.

Peering into the contract itself we find a form of insurance which indemnifies the owner of any building which is sprinkler equippped against any damage such equipment may produce in any accidental way when fire is *not* the cause. Bear in mind that there is a difference between sprinkler leakage insurance and water damage insurance. Perhaps we had better define each.

Sprinkler Leakage Insurance is insurance which protects or indemnifies against damage producing financial loss, the result of leakage of water from automatic sprinkler equipment, also any defects connected therewith or from any connections which form a part of the equipment and which are caused to break or become punctured mechanically.

Water Damage Insurance on the contrary, is an indemnity constructed solely to reimburse for damage produced by the leakage of water or plumbing and heating equipment, elevators, tanks, roofs, cylinders, or from rain or snow entering through broken or open windows or skylights.

As you see, there is a distinct and clear line drawn between Sprinkler Leakage Insurance and Water Damage Insurance. The only other lia-

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Read the Policy!

AFTER reading about a few of the successful insurance hoaxes which Leo E. Thieman, of the Casualty Information Clearing House, Chicago, made the subject of a speech to the Y. M. C. A., of that city, the average Credit Manager will resolve to sound a warning to his customers on this point. Some of these swindles are described, as follows:—

"The general public is too often apt to think of 'insurance as being merely insurance' and to accept as final the word of almost anyone soliciting them. The names of great institutions, such as Lloyds of London, have been traded upon incessantly. Lloyds has been singled out largely because press stories indicate the widespread character of the risks of such an institution. News items dealing with insurance issued by Lloyds against the contingency of twins, the marring of most beautiful legs of a danseuse and sundry other freak coverages impress the most innocent of insurance buyers profoundly.

"Thus impressed, it is an easy matter for a salesman for one of the 'fly-by-nights' to put his prospective customer in a frame of mind in which he will swallow almost any kind of exaggeration. An illustration in point is a recent case involving the indictment of certain promoters for use of the mails to defraud. The solicitors of the so-called insurance company not only stated but the management advertised that it possessed 'not millions but actually billions of finances.' The truth of the matter is that it had virtually nothing and one of the high officers in the concern had previously been indicted, convicted and fined in another state for use of the mails fraudulently.

"It is necessary to read the insurance policy in these days and times not only for the purpose of ascertaining the extent of the coverage but to determine if what is offered is actually an insurance policy. One of the so-called 'motor service' corporations issued a contract that was stamped unmistakably—'This is not a policy of insurance or contract of indemnity'—and yet in many instances it was sold as an insurance policy, because the purchasers would not so much as even read the top head lines on the contracts.

"Many unfortunate situations were created. Persons sued for injury claims appealed for aid to an empty office space or were told their contracts did not cover protection against personal injury suits; in short, were not policies of insurance at all. A certain business man in Chicago took out ten different motor service contracts of this stamp under the impression that he had full liability protection.

"A hoax, under the guise of credit insurance, was put over on a prominent Chicago business firm. A salesman in his initial call showed a sample of the credit insurance policy which contained among other provisions the following statements:—

"provided the accounts have been placed with the company before they are more than sixty days past due."
"From the aggregate net loss ascertained in adjustment as herein provided, there shall be deducted an agreed Normal Loss of 20 per cent., to be borne by the Insured, during said certificate period."

The policy which was actually issued and delivered to the firm, said as follows:

"provided the accounts have been placed with the company for collection before they are more than thirty days past due."
"From the aggregate net loss ascertained in adjustment as herein provided, there shall be deducted an agreed Normal Loss of 20 per cent., to be borne by the Insured, upon the total gross sales made during said certificate period."

"When it is realized that in a merchant's outstanding accounts usually one or two per cent. is past due, and that furthermore the normal loss, as a whole, is about one-half of one per cent. of a year's sales, it can be appreciated readily that in the policy which the Chicago firm got there was no insurance at all. This for the very simple reason that it would have had to sustain a total loss, before receiving indemnity, equal to 20 per cent. of its entire year's gross sales. If it had such a record it wouldn't have needed credit insurance at all. It would have been 'broke' before it started."

How To File Complaints

SERVICE to subscribers to the Credit Protection Fund of the National Association of Credit Men is greatly facilitated when complaints are filed according to the necessary rules established by the Credit Protection Department. These rules and a form for filing complaint are to be had from any of the three divisional offices as listed on page 38.

Your Favorite Sport — Business Service

(Continued from page 21)

invite the interested creditors to a friendly discussion of the case. Ten chances to one, a plan can be made that will enable the debtor to trim his sails or increase his sales, and gradually work out of his difficulty. The debtor will appreciate a plan to save his skin much more than he will a decision to wind up his affairs pronto. Of course, if it is a hopeless case, call in the Adjustment Bureau at once. But many that look pretty bad, can be pulled out when the creditors are co-operating.

Investigate the Community

While digging into the affairs of this debtor, have an investigation made of his community. Are the retail merchants organized? Do they co-operate and exchange credit information? Is there a reporting bureau available?

If the retailers in the community are not alert to these opportunities, help them to arrange a meeting, and explain the many advantages of complete co-operation with a local association that is affiliated with the Retail Credit Men's National Association.

Conditions in smaller towns and communities are entirely different from those in the larger centers. Often two competitors can not seem to get together, but they will both support a plan worked out by some one who speaks with authority, particularly if they can be shown that it means increased profits.

Our attention as wholesale credit managers is arrested by the lure of this fascinating game of Business Service. So varied are its applications, that each of us may choose an activity that is particularly interesting. In your Association are men peculiarly fitted for some phase of the work.

Tact and diplomacy—infinite patience and the ability to hold to a plan until it is worked out—clear vision, with courage to make that vision come true—and through it all, a spirit of genuine helpfulness that nothing can dismay—these are the qualities that make Business Service effective.

Business Service is of particular interest to Credit Managers because it increases profits. It prevents many losses that would have occurred without the direct help of Business Service. Through this activity, collections are speeded up.

Don't say that it sounds too good to be true, for that would be confessing that you are not co-operating with your local Business Service Committee, and that you have not applied Business Service in your own work. If you are not now enjoying this direct help, just telephone the President of your local Association of Credit Men and ask him to put you in touch with the Chairman of the Business Service Committee. If for any reason the Committee is not active, you can perform no greater service for your firm and your Association, than to see that an active Business Service Committee is functioning fifty-two weeks each year.

As a preliminary, send at once for a copy of "Business Service—Its Meaning, Purpose and Development," a study prepared by the N. A. C. M. Business Service Committee. A supply of this publication, now much in demand, is carried by the Divisional Managers of the National Association of Credit Men, New York, Chicago and San Francisco, and by many local Associations.

Business Service

MR. OLNEY, writer of this article and of other articles in recent issues of the CREDIT MONTHLY, is an active member of the National Association of Credit Men's Business Service Executive Committee. The other members are Chairman J. M. Rust, Union Oil Company of California, Los Angeles; E. C. Gayman, Sperry Flour Co., San Francisco; F. W. Black, Western Meat Co., San Francisco; R. H. Ohea, The Paraffine Companies, San Francisco; C. F. Longley, Bishop & Co., Los Angeles; O. M. Bryant, The Braun Corporation, Los Angeles; and A. F. Stepan, Western Wholesale Drug Co., Los Angeles.

Kentucky Court of Appeals

Changes Status of Foreign Corporations

By W. Randolph Montgomery

Of Counsel, National Association of Credit Men

THE decision of the Court of Appeals of Kentucky in a case entitled *Williams vs. Dearborn Truck Company,* is of interest to all corporations doing or contemplating doing business in Kentucky.

Prior to this decision, which was handed down on February 15th, 1927, the Kentucky Courts had held that any foreign corporation conducting an intra state business in Kentucky without having filed the statement required by Section 571 of the Kentucky Statutes, was precluded from a hearing in Court to enforce any contractual obligation, or to recover for injury done to its property. (See *Fruin-Colnon Contracting Co. vs. Chatterson,* 146 Ky. 504; *Oliver Company vs. Louisville Realty Co.,* 156 Ky. 628; *Bondurant vs. Dalanke-Walker Milling Company,* 175 Ky. 774; *Hayes vs. West Virginia Oil, etc. Company,* 183 Ky. 622.)

These decisions are expressly overruled by the Court of Appeals in the Williams case. The Court pointed out, that Sec. 571 of the Kentucky statutes declares the penalty for disobedience of its provisions in these words:

"If any corporation fails to comply with the requirements of this section, such corporation, and any agent or employee of such corporation, who shall transact, carry on or conduct any business in this state, for it, shall be severally guilty of a misdeanor, and fined not less than one hundred nor more than one thousand dollars for each offense."

and added:

"By providing a specific and severe penalty to be meted out to any corporation or its agents who transacted business without having filed the required statement, it hardly seems reasonable to conclude that the legislature intended that any other penalty should attach."

The reason for the reversal by the Court of its previous decisions, was that the

"court has had forcibly called to its attention recently in several cases the consequences of the interpretation and application given to the section, supra, of our statutes in the opinions, supra, as well as the consequences of a like interpretation and application of the provisions of Section 199b, Kentucky Statutes, requiring persons doing business under fictitious names to file statements disclosing the names of the persons interested; so that both statutes and our opinions relating to them have again been given most serious investigation and consideration."

"No case has been presented to this court in which the application of those two sections of our statutes as they have been interpreted has not worked harsh injustice. In the Oliver case, supra, the company, a Tennessee corporation, erected a large and expensive building for the Louisville Realty Company, in Louisville, Kentucky. It sued for the balance due it on the contract. The relief it sought was denied solely because the corporation had not complied with the provisions of Section 571. Fortunately in that case only a comparatively small portion of the contract price was involved; but under the principles there announced if the action had been for the recovery of the entire contract price of the building, however much that may have been, the company for whom the house was built would have been excused from paying any part of it because of the failure of the contracting company to file the statement required by Section 571. In *Fruin-Colnon Contracting Company vs. Chatterson,* though appellant corporation had been accepted as the lowest and best bidder and contracted with for certain street improvement work after all the requisite, valid, legal steps had been taken by the municipality so as to impose liability upon the owners of property abutting the streets to be improved, and though in accordance with the specifications it had constructed the street, the property owner was excused from payment because the corporation had not filed the statement required by Section 571. Those are not extreme but merely average examples of the grave injustice resulting from the interpretation and effect given to the provisions of that section of our statutes by this court."

All States provide penalties for foreign corporations doing business within their borders without obtaining a license. Such licenses are required, of course, only from foreign corporations engaged in intrastate business, as distinguished from interstate business. This distinction is discussed in the 1928 edition of the *Credit Diary and Manual of Commercial Laws,* commencing at page 297.

The penalty in many jurisdictions is that which has so recently been abolished in Kentucky, namely, that the foreign corporation which has not compiled with the law, may not maintain any action upon contract in the state courts. In other States the penalty is fine or imprisonment or both and the courts have fre-

quently interpreted this penalty to carry with it an implied inability of the corporation to maintain an action on contract as a party plaintiff in the state courts, even though the legislature has not expressly so provided.

As will be seen from the extracts quoted above from the decision in *Williams vs. Dearborn Truck Company*, the results flowing from failure to comply with the Foreign Corporation Laws may be extremely serious.

New Kiwanis Code of Business Standards

Kiwanis International has adopted a code of Business Standards. The organization sets forth its ideals as follows:

"In advancing standards in all lines of business and professional service, Kiwanians should seek to be men with a lively consciousness of what is right and wrong, men of a fine sense of honor, men who prize individual integrity more than individual gain.

"Business should supply useful goods in an orderly manner for human needs at lowest cost. The production of material values is indispensable; the formation of human values should be equally compelling. To survive, business must gain a fair profit for commensurate service. To succeed, business should give added service for community enrichment.

"The various professions afford opportunity to strengthen honorable and helpful human relationships, and all members of the professions should strive by example and influence to preserve the high standards of ethical conduct against the attacks of all mercenary and commercialized interests."

Application

The application of these ideals is described as follows:

HONESTY—Thou shalt not steal, either by old or new methods.

FAIR COMPETITION—Not merely the letter but the spirit of fairness.

LAW AND BUSINESS—Higher standards mean fewer laws.

IMPARTIAL ARBITRATION — The court of first resort.

IMPROVING EMPLOYMENT RELATIONS—Emphasize the human factor.

WASTE REDUCTION—A total asset; it has no liabilities.

BUSINESS STABILIZATION — Steadying prosperity by balanced production.

Another Safeguard

(Continued from page 27)

bility line is Rain Insurance but its functions are so far from the two policies described there is little chance of confusion.

Of next importance to realize is that a Sprinkler Leakage policy is *not issued in connection with a fire insurance policy.* It must at all times represent a separate contract. It cannot be attached as a rider to a fire insurance policy as Rents insurance is permitted to be handled. Sprinkler Leakage insurance is written by both Casualty and Fire insurance companies.

Just what would make a sprinkler leak or break?

The gravity tanks which feed the sprinkler equipments are frequently the cause of very heavy losses when their supports become weakened through deteriorated wooden beams or due to the cracking of a brick wall or the settling of a building. Corrosion frequently contributes to a sprinkler break.

Of course, the greatest hazard in the East with a sprinkler system is freezing. In some plants it is difficult to distribute heat evenly. A window or a skylight is left open through carelessness, or becomes broken and a cold draft enters and freezes the pipe, causing it to burst. The insurance companies find many other losses due to this, caused during cold weather, on holidays and week ends, when the premises are unoccupied.

Very frequently part of a building will be closed and the water not drained from the pipes of the sprinkler system. Again it may be faulty workmanship or the vibration of a machine and, in some cases, fumes from manufacturing processes have caused breaks and leaks.

Furthermore it is possible for sprinkler heads to open prematurely when the sodder joints which hold back the flow of water give way under the prolonged strain.

One of the frequent causes which contribute to a sprinkler break is the piling of stock close to the ceilings of the plant or warehouse, or the reckless throwing of stock into stalls or storage bins. The variations in temperatures, as mentioned, is an element with which sprinkler equipments must contend, for some new heat producing process might be introduced into one of the rooms where the sprinklers installed have a low fusing point, or, on the contrary, where high test sprinklers were installed, and following continued high temperature they are likely to burst under the long continued strain.

As Bad as a Fire Hose

The average business man hardly visualizes the damage an unchecked sprinkler head can bring about in a short space of time. Among engineers it is well realized that five sprinkler heads will discharge approximately as much water as one standard fire engine stream. One sprinkler head will discharge a shower over an area of 80 square feet and release nearly 1400 gallons of water in half an hour, which is virtually at the rate of 50 gallons a minute.

Then again a sprinkler head may not discharge to its full flow, but develop a pressure leak not sufficient to operate any automatic alarms. Should this occur during a holiday, the damage caused through this unnoticed leak can be as great as if it occurred in fifteen minutes of full flow.

The insurance does not extend in the way of protecting damage to the sprinkler system itself, but is confined to the damage caused by the system to the surrounding property. It is, however, possible to insure specifically the equipment itself, though this is seldom done. The policies are written for from one to three years, and for any limit desired by the assured. The damage caused to stock as a result of these sprinkler systems, operating as intended to extinguish a fire, is not a loss which is met under the Sprinkler Leakage policy, but is rightfully collectable under the ordinary Fire Insurance policy. This particular contract referred to is designed only to protect damage to stock and all property against any "accidental" discharge of the sprinkler equipment and not the flow of water which results when the sprinkler heads are caused to open up by the heat from flames.

Should any of these causes precipitate one of these inside showers and not be checked, financial credit may be considerably impaired as a result.

To further discuss the contract itself, it has some exclusions which should be understood. For instance, the policy does not cover loss or damage caused directly or indirectly by fire, lightning, tornado, earthquake or explosion. It does not cover ruptures or breaks in boiler equipment.

The rates for this form of insurance are promulgated and controlled by a sprinkler leakage conference and the rates are worked out on a careful analytical system. The rates are all based on a damageability table, which means that each policy has its premiums worked up from these basic tables. For sole occupancy and manufacturing risks the rates are much higher.

The insurance companies will not finance the installation of sprinkler equipment even though this protective system has their unwarranted recommendation. The property owner who buys such insurance of course greatly reduces his fire insurance cost and is in a better position to make credit demands. Associated with most sprinkler systems is a bell or gong installed as a rule on the outside of the building to ring and attract attention if an accidental break in the sprinkler system occurs. Not so long ago a sprinkler equipment broke during the night in a large warehouse where valuable textile goods were stored and on which considerable credit had been extended. A number of people stopped when they heard the bell clang, but no one knew just what steps to take and the broken equipment continued to pour water over the textile goods and was not checked until the fire department arrived and turned off the water. It is therefore desirable in some instances to educate a community in the meaning of various alarms.

The installers of the sprinkler equipment will offer no guarantee against loss or accidental discharge, because they have no control over the management of the plant and should the heat be accidentally turned off and should freezing result, they could hardly be expected to stand behind such a loss.

Although sprinkler equipment is of major importance in lowering fire insurance rates and making safe buildings it should also command the study of the Credit Manager especially when his responsibility calls for the extension of financial credit on goods stored in warehouses, private and public, in terminals or stores. Naturally the sprinkler-equipped buildings are safer, but when sprinkler insured the safest.

Well Run Convention

A REFUND of six per cent. of their subscriptions has been made to those Kentucky concerns which assisted in financing and making possible the successful handling of the Thirty-second Annual Convention of the National Association of Credit Men, which met in Louisville, June 6 to 10, 1927.

Our July, 1923, Issue

A PAST president of the National Association of Credit Men is binding up all his volumes of the CREDIT MONTHLY. Only one issue in his set is missing, namely that of July, 1923. If any reader of this paragraph will send a copy of that number to the CREDIT MONTHLY, One Park Avenue, New York, it will be gratefully received and the ex-president's files will be complete.

Addresses Wanted

ADAMS, J. A., formerly of San Francisco, Cal.
ALEXANDER, G., 316 Main St., Derby, Conn.
AMENTA, S., 34 Main St., Middletown, Conn.
ANDERSON & SON, ALBERT A., 176 E. Van Courtlandt Ave., also 3164 Webster Ave., N. Y. C.
BAROME, NICOLA, 3689 E. 154th St., E. Cleveland, Ohio.
BENSON, C. N., Bedford, Ohio.
BILLIOS, GEORGE, 2517 Pitkin Ave., Brooklyn, N. Y.
BOHN, H. L., 8015 Detroit St,, Cleveland, Ohio.
BROWN, ELMER, formerly had a store at 4209 Milwaukee Ave., Chicago, Ill.
BRUNNING, JULIUS, 3788 Broadway, New York City.
BURNSTEIN, EDWARD, formerly at 63 East Madison St., Chicago & 1587 Broadway, New York.
BUSTER, EDWARD, North East Cor. of 11th & South Sts., Phila., Pa.
CADIEUX, A., prop. Melvindale Hardware Heating & Plumbing Co., Melvindale, Michigan, now reported in Detroit, Mich.
CARLSON, LEONARD O., public accountant, formerly 2204 Michigan Ave., Chicago.
CARLTON DRUG CO., 103 Manmouth Ave., Red Bank, N. J.
CARPENTER, A. G., formerly at Marlinton, W. Va., Havre DeGrace, Md. Last address Hopewell, Va.
COOPER, H. D., Believed to be in New York City.
DENNIS, LIONEL, formerly operated the Albion Diner, Albion, N. Y. later operating the Rodney French Diner, 31 Rodney French Drive, New Bedford, Mass.
DOYNO, J. H., 523 W. 145th St., N. Y. C., also as Audubon Electric Co.
FAZZINA, SALVATORE, 230 North St., New Britain, Conn.
FRANKFURT, H. D., formerly 1096 No. Western Ave., Los Angeles,—believed to have gone to Texas.
FREIDLIN, JOSEPH, formerly Scranton, Pa., 245 Penn Ave.
FUCILE, HENRY, formerly of Gardner, Mass., now in New York City.
GARDNER, CHARLES, located on Orchard St., New York City.
GELBLUM, H., tdg. as Howard Shoe Shop, 18 St. John Street, Schuylkill Haven, Pa.
GORDON, JOSEPH, Cinderella Perfume Shop, 1686 Pitkin Avenue, B'klyn, N. Y.
GRANOFF, HARRY, 23 Day St., New Haven, Conn. reported to be in B'klyn, N. Y.
GREENBERG, HARRY, 59 Maltby St., New Haven, Conn.
HOLLANDER, D. M. (DR.) Druggist, 11 1st Ave., New York City.
HOWELL, BILLY E. (MRS.) formerly 260 Lexington Ave. left for Arizona.
HYGRADE PHONOGRAPH CO., formerly located on Bowery, New York City.
JACOBS, ALEX, formerly at 7400 North Keeler Avenue, between Chase and Jarvis Streets, Chicago & formerly with Krenn & Dato.
JACOBSON, M., 1031 W. Market St., Louisville, Ky. believed to be in New York City engaged in the General Merchandise Business.
JEAN IRVING, 1514 Prospect Ave., Cleveland, Ohio.
LEONHARDT, L., formerly located at 3715 Cottage Grove Avenue, Chicago, Ill.
LIPSCHITZ, Isadore, 1290 E. 9th St., Cleveland, Ohio.
McGOWNAD SHOPS, formerly at 415 De-Balivier Ave., St. Louis, Mo.
MICKEY, HERMAN, 3909 E. 93rd St., Cleveland, Ohio.
MICKEY IGNITION CO., W. 65th & Clark Ave., Cleveland, Ohio.
MINICONZO, C., 425 Columbus Ave., New Haven, thought to be in Schenectady, N. Y.
MISHELOFF, JACOB, 71 Truman St., New Haven, last reported to be in New York City.
MORRAN, ED, formerly operating restaurant and residing at St. Paul and thought to be at St. Fetersburg, Fla.
MULVEY, J. A. AND J. J., formerly operated business at Little River, Fla., originally came from Fresno, Calif. Likely have gone back there.
NELSON, C., formerly located on Manchester Road, Webster Groves, Mo.
OETJEN, A. J., 378 E. 270th St., Cleveland, Ohio.
OWENS, JOHN, 13607 Sixth Avenue, E. Cleveland, Ohio.
PIQUEROS, NICK, 241 New Main St., Yonkers, N. Y.
PRENDERGAST, JOS., formerly had a store at 1346 W. 79th St., Chicago, Ill.
REINIGER, FRANK, 396 Bank St., New London, Conn.
REITER, JOSEPH, formerly at 4204 Dupont Ave., So. Minneapolis. This party left for Florida.
REYNOLDS, W. B., formerly Liberty St. Auto Exchange, Warren, Pa.
SAFFRON, WILLIAM, Master Plumber, formerly of Chicago, Ill. & Lexington, Kentucky.
SALLER, HARRY, Fashion Shop, Elyria, Ohio.
SCREBNICK, L., 440 Harrell Ave., Bridgeport, Conn.
SHEIFFELE, ROSE, 15 Lawrence St., New Haven, Conn., last heard of in New York City.
SIMMONS, W. H., 13607 Sixth Ave., E. Cleveland, Ohio.
SKOLA, JOE, 3775 E. 131st St., Cleveland, Ohio.
SKOULOS, GUS, 51 So. Main St., South Norwalk, Conn.
SNEDEGER, LESLIE, formerly of Little River, Kansas.
STEIN, S., 556 E. Main St., Alliance, Ohio.
STUART, WM. M., Trumbull, Conn.
TRAKAS, N. & SONS, 525 Main St., New London, Conn.
WRIGHT, J. W., painter, formerly located at 763 No. Snelling Ave., St. Paul, Minn., lately located at No. 232 Newport Ave., Long Beach, Calif.

The Business Library

By Frank A. Fall, Litt.D.

Director of Education and Research, National Association of Credit Men

Essays in Economics

ECONOMIC PROBLEMS—NEW AND OLD. Allyn A. Young. Houghton Mifflin Co., Boston. 1927. 301 pp. $3.50.

In this volume are collected fourteen timely papers by Dr. Allyn Abbott Young, professor of economics at Harvard University, former Director of the Bureau of Research of the War Trade Board, and Chief of the Division of Economics and Statistics of the American Commission to Negotiate Peace.

Among the subjects discussed are external and internal war debts, the trend of prices, exchange value and money prices, depreciation and rate control, the trend of economics and the Federal Reserve System. The memorandum on the economic situation of Hungary in 1925 is printed for the first time, through the courtesy of Jeremiah Smith, Jr., Former Commissioner General of the League of Nations for Hungary.

One of the outstanding chapters, from the credit point of view, is Chapter V on "The Structure and Policies of the Federal Reserve System." On economic as well as on political grounds, Dr. Young suggests, it is well that we have a system of regional reserve banks instead of one great central bank with regional branches. The different regions have their own interests and problems, and neither the seasonal nor the cyclical variations of the demand for money are alike in all of them. There is room for some degree of regional autonomy in respect of banking policies. Such policies need not always be uniform in order to be elements in a harmonious national system. Sooner or later we shall learn how best to differentiate between the functions and operations of the New York Bank and the eleven other regional banks.

In Professor Young's opinion, nothing else that has been done since the Federal Reserve System was established departs so far from the "intent" of the law as the pooling of the open-market operations of the reserve banks, the centralizing of these operations in New York, and their supervision by a committee of officers of the reserve banks in conjunction with the Federal Reserve Board. Just how far the system as a whole should be "unified" seems to the author to be an important and difficult question.

It would be better, Dr. Young concludes, to insist upon the separate regional responsibilities of the different reserve banks, even if this means frankly conceding larger responsibilities and larger powers to the New York Bank than to any of the other banks, than to run the danger of "unifying" the system into a cumbrous and slow-moving substitute for a single central bank, with divided authority and divided responsibilities.

Insuring Lives to Protect Business

BUSINESS LIFE INSURANCE Ralph Sanburn. F. S. Crofts & Co., N. Y. 1927. 268 pp. $3.00.

Fifteen titles have now been announced in the series designated as "The International Life Underwriters' Library." Of these, eight, including Mr. Sanborn's book, are out and the remaining seven are in preparation.

The phenomenal year-to-year increase in the volume of life insurance sold has been due, probably, not so much to intensive salesmanship as to the growing application of policy contracts to definite needs, such as the liquidation of inheritance and estate taxes, the creation of trusts, the establishment of charitable bequests and the amortization of mortgages. And recently business has become conscious of the value of life insurance as the solution of some of its most puzzling financial problems.

In a partnership this form of protection is peculiarly useful. The personal qualities and abilities of Partner A and Partner B do not appear in the balance sheet, except possibly as disguised under "good will," but they are, nevertheless, a most important part of the assets of the enterprise. In many cases they clearly overshadow all of the other assets. If one partner dies, the enterprise is dealt a blow that may easily impede if not effectually block the progress of the business.

But suppose the partners have protected the business by taking special life insurance, in a form which has been increasingly popular during the past two or three years,—say $50,000 on the life of Partner A, $50,000 on Partner B, and $50,000 on the loss of *either partner*. Thus, at a time when the business needs it most, there flows into the treasury the sum of $100,000 in cash. This may not fully offset the loss caused by the death of one of the partners, but it will in all probability carry the business over the adjustment period, and enable it to go ahead on a new basis, without loss of power.

In the case of a corporation, life insurance may be used to reinforce credit, the author suggests, in several ways:

1. By liquidating bank loans.
2. By amortizing bond or preferred stock issues.
3. By providing insurance on the life of one or more men equivalent to one year's interest on bonds or stock.
4. By paying for outstanding contracts for merchandise or raw materials, the sale or conversion of which depends upon executives who are insurable.
5. By guaranteeing a customer against loss if the corporation has undertaken the execution of a contract or order which will depend upon the continued existence of one or two men.
6. By insuring the treasurer of any corporation so that a fund for general reinforcement, if and where needed, may be available at his death.

This book, which has been approved by the National Association of Life Underwriters and the Life Underwriters' Association of Canada, is designed primarily as ammunition for life insurance salesmen specializing in business insurance. The credit aspects of the subject, however, are so important and so understandingly treated that the book will amply repay a careful reading by credit executives.

"Foreign" Corporations

CORPORATIONS DOING BUSINESS IN OTHER STATES. H. A. Haring. Ronald Press Co., N. Y. 1927. 302 pp. $5.00.

One good result which may well be achieved by this book is the clearing up of some unfortunate phraseology. Within the boundaries of the state in which it was created, a business corporation is known as a "domestic" corporation. In any other state that same corporation is known as a "foreign" corporation. But more than one official of an American corporation has come to grief by regarding "foreign" as a synonym for "alien".

Mr. Haring's book is a find for any man who directs or negotiates business for his company in states other than the one in which it was incorporated. It tells exactly what constitutes "doing business" in another state; what fines are levied, not only on "foreign" companies but also on their directors, officers and agents for non-compliance with state laws; and what steps are necessary to make your company's transactions lawful and binding in each state.

There are ten chapters, thirty forms of reports and certificates and seven digests and tabulations. The latter include state property taxes (officials and dates); corporation fines and personal penalties for non-compliance with laws on foreign corporations; valid and invalid contracts; required agency appointments; data as to initial filing and fees; and tabulated digest of annual reports.

Each corporation, Mr. Haring asserts, should determine upon a definite policy for the conduct of its business in all states other than its domicile. The one unpardonable sin is to permit a drifting policy. Whatever may have been the experience of the past, it is absolutely certain that requirements over foreign corporations will grow more stringent. Such regulation is very popular, except with corporation executives. No conceivable influence can be brought to the 48 legislatures to divert them from their willingness to follow so popular a course. The foreign corporation offers to the legislature, moreover, a most alluring leverage for increased revenue—a source easy of collection, striking the popular fancy, and yet one than can scarcely bring to bear any influence for its own protection.

With the certainty of growing regulation, the management is wholly culpable if it allow the corporation to drift into transgression of the law. A definite scheme, the author urges, should be laid out, charting precisely how business is to be carried on in each of the states. With such an "organization chart" before them, the executives can develop the business with assurance, devoting their energy and zeal to constructive measures and thus escaping the undefined dread of unintentionally becoming law-breakers and involving their corporation in a complexity of penalties and fines.

A "Bewildering Problem"

THE TARIFF. George Crompton. The Macmillan Co., N. Y. 1927. 226 pp. $2.50.

The sub-title of this book is "An Interpretation of a Bewildering Problem." Fortunately the author's grasp of the subject is such as to make the reader less rather than more bewildered as he makes his way through the fourteen chapters.

Mr. Crompton begins his story, as other writers have felt compelled to do, with Adam Smith, and his plea for free trade, "The Wealth of Nations." Chapter II describes the spread of the free trade movement and Chapter III the return to protection. Succeeding chapters deal with the theory and some of the fallacies of free trade; arguments for protection, including the familiar "infant industries" argument; the nature and course of industrial development; secrecy in industry; dissemination of the industrial arts; and the triumph of protection.

So far as defence is concerned, says Mr. Crompton, protection is in some ways a permanent policy, although of course only for those industries which are essential in time of war, and which cannot be carried on without some help. In the United States there are some such industries, but it is probable that in the near future very few will be dependent on protection. Protective tariffs, however, will probably be maintained for many years as

a defence against dumping, and as a means of getting favored treatment from other nations. Free trade is certainly not at the present time making any progress; and it will probably not do so until there is a settled condition of affairs in Europe.

Most of the European tariffs defeat, in the opinion of the author, their own ends. Europe is full of tariff walls, and it is hard to see how they are of much advantage to the countries which have erected them. These tariff walls have been maintained, from generation to generation, chiefly because war and the fear of war have dictated the policies of nations. Universal free trade is not likely to be realized until the arrival of "the Parliament of Man, the Federation of the World."

Fundamentally, Mr. Crompton believes, the doctrine of free trade is sound. But this does not mean that protection under certain circumstances is not desirable. The author agrees with Friedrich List in his contention that free trade is advisable in the early stages of a nation's civilization, and adds the suggestion that it is also the correct policy at all stages of development for those nations which through lack of natural resources can never become industrially important.

The present century, Mr. Crompton concludes, is witnessing an economic national supremacy more nearly complete than that enjoyed by Great Britain during the preceding century. This is because the United States possesses incomparable natural resources. The industrial and economic supremacy of this country is that of three million square miles, and not of ten or twelve thousand as in the case of Holland or fifty thousand as in the case of England. The industrial supremacy of the United States is a natural condition, warranted by the great natural wealth of the country. Success in industry was attained by the United States in large measure as a result of protectionism. America was destined to be a great industrial nation, but its present commanding position would not have been attained so soon or so decisively had it not been for the adoption of the policy of protection to native industries.

An Experiment in Conciliation

POSTPONING STRIKES. Ben M. Selekman. Russell Sage Foundation., N. Y. 1927. [illegible] pp. $2.50.

This is a study of the Canadian Industrial Disputes Investigation Act, and its bearing on labor problems during the eighteen years it has been in force. The author has submitted the thesis to Columbia University in partial fulfillment of the requirements for the degree of Doctor of Philosophy, and has therefore been so fortunate as to have the advice of members of the University's Faculty of Political Science, including Professors Samuel McCune Lindsay and Henry R. Seager.

At first, Canadian labor was emphatically opposed to this Act. In 1916 the Trades and Labor Congress, representing the largest group of trades unions in Canada, passed a resolution calling for its repeal. But during the later years of the World War, and since, labor in Canada has not only given the measure vigorous support, but has urged its extension to industries not yet affected by its administration.

Mr. Selekman's report is important because of the possibility of the enactment of a similar law in the United States. At the present time, our Federal Department of Labor and some state departments have conciliation bureaus which offer their services as mediators in disputes. What we need here is possibly not so much the exact duplication of the Canadian law as a further development of the mediation and conciliation machinery we already have.

A particularly welcome feature of this book is a synopsis, of about ten pages, placed between the Foreword by the Foundation's Director of Industrial Studies and the author's own Introduction. The first chapter sketches the history of the Act, and describes labor's "right-about-face" in regard to it. The second takes up the provisions of the Act in detail, and the third and fourth deal with its operation and administration.

Chapter V discusses the basis of decisions rendered by the boards of investigation and conciliation. No code of industrial principles has been laid down to govern these decisions. Some boards have freely rejected arguments accepted by others as a basis for decisions in similar disputes. Individual boards have, however, used certain principles in arriving at decisions, and Mr. Selekman abstracts a number of decisions to illustrate the principles involved.

In the concluding Chapter (XIV), the author indicates the lessons which we in the United States can learn from Canada's long experience with the Disputes Act. The record in Canada seems to point to conciliation as an excellent method of government intervention in industrial disputes. This plan places upon the shoulders of employees and employers the responsibility for arriving at an amicable settlement—a procedure sound for two reasons. First, whatever be the settlement finally arrived at, it must be translated into everyday practice by both employers and employees. Second, it puts the actual details of working out the settlement upon those most familiar with the technical aspects of the industry in which the dispute has arisen.

Ia., Kas., Neb., and S. D.

Executitve Manager Miller's February Monthly Letter contains a Survey of Business Conditions in Iowa, Kansas, Nebraska and South Dakota. The other topics in this compact message to members of the N. A. C. M. are: The Credit Manager in 1928, The Defense of Credits, and The CREDIT MONTHLY as a Service.

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